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No 3, (Signed to press 23 Mar 95) pp 33-37

[Documents adopted at the 10 February Almaty session of CIS Council of Heads of State and Government "Declaration of Participating States in Collective Security Treaty" and "Concept of Collective Security of Participating States"]

[FBIS Translated Text]

Declaration of Participating States of the Treaty on Collective Security

We, the heads of state of the Azerbaijan Republic, the Republic of Armenia, the Republic of Belarus, the Republic of Georgia, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan and the Republic of Uzbekistan,

recognizing our responsibility for the security of participating states of the Treaty on Collective Security dated 15 May 1992 (henceforth—Treaty);

viewing the Treaty as an important contribution to reinforcing all-European security and to stability in the Asian region;

acting in accordance with the United Nations Charter, documents of the OSCE [Organization for Security and Cooperation in Europe] and other international obligations adopted by participating states of the Treaty,

and in order to add new momentum to the development of mutual cooperation in security, military development and defense, hereby adopt this Declaration on the following:

1. The basic premise of the participating states is that conditions favoring rejection of the use of armed force as a means of resolving international problems are created as a result of surmounting confrontation, broadening partnership and full cooperation, reinforcing trust in military matters, and reducing nuclear and conventional arms.

The Treaty on Collective Security lays the foundation for creating a new security structure, called upon to promote further development of positive processes both in mutual relations among participating states and in the broader aspect in the international arena, and to effectively solve the new problems in security and cooperation.

2. Concerned for the persisting instability in the world, for the danger of proliferation of weapons of mass destruction and the means of their delivery, and for the presence of unresolved conflicts, including armed conflicts, near their borders and on their territories, the participating states emphasize their adherence to preserving peace and maintaining collective security in accordance with the United Nations Charter and a readiness to seek long-term solutions aimed at settling crises and preventing new centers of tension.

The participating states confirm their obligations to restrain themselves from using force or threatening its use, and to resolve all differences both among themselves and with other states exclusively by peaceful means. They will not take part in actions directed against another participating state. A mechanism of mutual consultations will be put into play the moment the need arises.

3. The participating states are convinced that coordination of their defense efforts will be in keeping with the goals of reducing military expenditures with regard for the currently existing infrastructure, for standardization of armament and military equipment in the armed forces, for the traditional ties of defense enterprises, and for the scientific research and military training base.

4. Uniting their efforts in collective security, the participating states see the system of collective security established by them to be an inherent component of the all-European security system, as well as a component of a possible security system in Asia.

5. The participating nations are ready to develop constructive relations of cooperation in the area of security with other states, which could include regional measures for reinforcing stability.

6. The participants of the Treaty respect the lawful security interests of other states. They are convinced that real possibilities exist for further advancement along the path of broadening the measures of trust with the goal of reinforcing security in all European and Asian states.

7. One of the most important directions of the joint efforts of participating states of the Treaty is promptly satisfying the international obligations they have assumed in the area of limiting and reducing arms, to include cooperation in reinforcing the regime of nonproliferation of mass destruction weapons and the means of their delivery and in monitoring exports of arms and of "dual" purpose technologies.

The participating states are ready to cooperate with other states in military technology, including in conversion of military production.

8. The participating states view the "Partnership for Peace" program proposed by NATO as a real alternative

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to mechanical expansion of NATO. They feel that its practical implementation should be oriented on forming a universal all-European structure of military-political cooperation that would strengthen the foundation of the OSCE. The specific forms and content of this partnership will be a topic of discussion by the participating states.

The Concept of Collective Security of Participating States of the Treaty

The concept of collective security of participating states of the Treaty on Collective Security dated 15 May 1992 (henceforth the Concept and participating states) represents the aggregate of the views of participating states on preventing and eliminating threats to peace, on joint defense against aggression, and on ensuring their sovereignty and territorial integrity.

The Concept is based on principles of the United Nations, the OSCE, the Treaty on Collective Security, and provisions of other documents adopted by the participating states in the course of its development.

The Concept includes: the principles of the military policy of participating states, the principles of ensuring collective security, and the basic directions and stages of creating a system of collective security.

Implementation of the provisions of the Concept foresees carrying out coordinated political, economic, military and other measures.

The participating states do not feel any one state or coalition of states to be their adversary in political and military respects, and they view all states of the world community as equal partners.

I. Principles of the Military Policy of Participating States

The participating states are united in their military, political and economic interests, in the currently established military technical base and infrastructure, and in the desire to pursue a coordinated policy of collective security.

The participating states will engage in consultation with the goals of coordinating their positions and pursuing a coordinated security policy:

in relation to other participating states of the CIS—in matters of military cooperation and rendering mutual assistance in solving the problems of military development;

in relation to NATO and other military and political organizations—in matters of cooperation and partnership, and participation in currently existing and newly established structures of regional security.

The participating states are to ensure collective security by all possibilities at their disposal, with emphasis on peaceful resources. They will consider the following in developing the measures of collective security.

Conclusion of global confrontation between the East and West has significantly reduced the danger of world war.

At the same time there are a significant number of regional interstate and intrastate problems, aggravations of which harbors the danger of escalation into armed conflicts and local wars. The preconditions for this persist in social, political, economic, territorial, national-ethnic, religious and other contradictions, and in a propensity of a number of states for resolving them by the methods of force.

The participating states believe the following to be the main sources of military danger:

territorial claims by other countries upon the participating states;

existing and potential centers of local wars and armed conflicts, chiefly in direct proximity to the borders of participating states;

the possibility of use (including unsanctioned) of nuclear and other forms of mass destruction weapons with which a number of states are armed;

proliferation of nuclear and other forms of mass destruction weapons, the means of their delivery, and the latest military production procedures, combined with attempts by certain countries, organizations and terrorist groups to achieve their political and military aspirations;

the possibility that the stability of the strategic situation would be undermined by violations of international agreements regarding limitation and reduction of armed forces and arms, and of unjustified build-up of military might by other states and military and political alliances;

external attempts to interfere in the internal affairs of participating states, and to destabilize their internal political situation;

international terrorism, the policy of blackmail.

The participating states consider the following to be factors that can promote escalation of military danger into a direct military threat:

build-up of troop (force) groupings in regions contiguous with the foreign borders of participating states to limits violating the currently established correlation of forces;

creation and training of armed formations on the territory of other states intended for use against the participating states;

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initiation of border conflicts and armed provocations from the territory of contiguous states;

introduction of foreign troops into territories contiguous with participating states (if this is not associated with measures to restore and maintain peace in accordance with a decision of the United Nations Security Council or the OSCE).

The participating states consider the following to be the priority directions in joint activity aimed at preventing a military threat:

participation together with other states and international organizations in creation of systems of collective security in Europe and Asia;

coordination of efforts to implement currently existing international agreements on disarmament and arms control, and develop new ones;

expansion of measures of trust in military matters;

establishment and development of equal-partner relations with NATO and other military and political organizations and regional security structures with the purpose of effectively reaching the objectives of a stronger peace;

spurring dialogue on drafting and adopting effective international agreements on reduction of naval forces and arms and limiting naval activity;

conduct of operations to maintain peace when so decided by the United Nations Security Council and the OSCE, and in correspondence with international obligations;

coordination of efforts to protect the foreign borders of participating states;

maintenance of armed forces and other troops of participating states at a level ensuring dependable security.

II. Principles of Ensuring Collective Security

The goal of the participating states in ensuring collective security is to prevent wars and armed conflicts, and in the case of their initiation, to guarantee defense of the interests, sovereignty and territorial integrity of the participating states.

In peacetime, the indicated goal is to be attained by resolving disputes and international and regional crises exclusively by political, conciliatory means, and by supporting the defense potential of each state with regard for both national and collective interests.

Each participating state is to take proper steps to ensure a stable position on its borders. It is to coordinate the activities of border troops and other competent services on the basis of mutual consensus to maintain the the established regime in frontier zones of participating states.

Should a threat arise to the security, territorial integrity and sovereignty of one or several participating states, or to international peace, the participating states are to immediately put the mechanism of joint consultation into play with the goal of coordinating their positions and implementing specific measures to eliminate the arising threat.

The strategic nuclear forces of the Russian Federation are to perform the function of a deterrent to possible attempts to carry out aggressive plans against participating states in accordance with the military doctrine of the Russian Federation.

In the event of aggression, in accordance with Article 4 of the Treaty on Collective Security the participating states are to deflect it and take steps to compel the aggressor to terminate military actions. To achieve this, they will predetermine and preplan the content, forms and means of joint actions.

The collective security of participating states is to be based on the following fundamental principles:

indivisibility of security, whereupon aggression against one participating state is to be viewed as aggression against all participating states;

equal responsibility of participating states for maintaining security;

observance of territorial integrity, respect of sovereignty, noninterference in internal affairs, and consideration of the interests of one another;

collective defense on a regional basis;

adoption of decisions on issues concerning collective security on the basis of consensus;

correspondence of the composition and preparedness of forces and resources to the scale of the military threat.

III. The System of Collective Security. Basic Directions of its Creation

A system of collective security, which the participating states see to be the aggregate of interstate and state bodies of administration and the forces and resources providing for defense of their interests, sovereignty and territorial integrity on a common legal basis (with regard for national legislation), is the foundation of collective security.

The following are interstate bodies of the system of collective security:

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The Council of Collective Security—the supreme political body in the interstate arena, providing for coordination and joint activity of participating states directed at implementing the Treaty on Collective Security;

The Council of Foreign Affairs Ministers—the supreme consultative body of the Council of Collective Security in matters regarding coordination of the domestic and foreign policy of participating states;

The Council of Defense Ministers—the supreme consultative body of the Council of Collective Security for matters regarding military policy and military development of the participating states.

Other administrative bodies operating on a permanent or temporary basis may also be created to support particular objectives concerned with collective security.

The bodies of political and military leadership of the participating states are to be the state bodies of the collective security system.

The participating states view the following as the forces and resources of the collective security system:

the armed forces and other troops of the participating states;

regional coalition (joint) troop (force) groupings that are to be created to repel aggression against participating states;

the combined (joint) air defense system, and other systems.

Creation of the forces and resources of the collective security system is aimed at deterring a possible aggressor, promptly revealing preparations for possible aggression and its repulsion, protecting the borders of the participating states, and at participation in peacekeeping operations.

The Council of Collective Security may create collective peacekeeping forces for operations to maintain peace, carried out in accordance with a decision of the United Nations Security Council and the OSCE.

The participating states view the following as the principal directions of creating the collective security system:

reconciling the basic provisions of legal acts of the participating states pertaining to defense and security;

consulting regularly on the problems of military development and training of the armed forces of participating states;

developing new approaches to the problems of raising troops (forces) to the highest levels of combat readiness, the forms and means of their training and their operational and combat use, and coordinated mobilizational preparation of the economies of the participating states;

reaching multilateral agreements on utilizing components of the military infrastructure and the airspace and waters of participating states;

coordinating on the problems of preparing the territory of participating states in the interests of collective defense;

conducting joint measures of operational and combat training of armed forces and other troops of the participating states;

coordinating on training programs for military personnel and specialists;

coordinating plans for developing, producing, supplying and repairing armament and military equipment;

generating unified approaches to the norms for creating and maintaining materiel stockpiles.

The system of collective security is to form gradually (in stages), with regard for development of the military and political situation in the world.

In the first stage:

Creation of the armed forces of the participating states is to be basically completed;

a program of military and military-technical cooperation among participating states is to be drawn up, and its implementation is to begin;

legal acts regulating functions of the collective security system are to be drafted and adopted.

In the second stage:

Coalition (joint) troop (force) groupings are to be created to repel possible aggression, and their use is to be planned;

a combined (joint) air defense system is to be created;

the matter of creating joint armed forces is to be examined.

In the third stage: Creation of the collective security system of the participating states is to be concluded.

In their activity to support collective security, participating states will observe the United Nations Charter and universally accepted international rules and principles.

The Concept of Collective Security confirms adherence of the participating states to the goals of preventing war and armed conflicts, of eliminating them from the system of international relations, and of creating conditions

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for comprehensive development of the personality, societies and states on the basis of the ideals of humanitarianism, democracy and universal security.

The provisions of the Concept will be supplemented, updated and approved as cooperation among participating states develops and strengthens, and as the new system of international relations takes form.

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Economic Issues

*Gaydar's Criticism of Economic Plan Refuted

954E0936A Moscow DELOVOY MIR in Russian 29 Apr 95 p 3

[Letter to the Editors from A. Belousov, Ye. Abramov, and A. Klepach, Russian Academy of Sciences Institute of National Economic Forecasting: "Mr Gaydar's Six Mistakes, or, A Few Words About 'Professional Niceties' and 'Iron Laws'"]

[FBIS Translated Text] In an interview with Mr Lopatnikov in this newspaper (3-9 April 1995) Mr Gaydar made several critical remarks on the forecast calculations prepared in our laboratory for the Glazyev Program. The gist of his remarks is as follows:

—the forecast of the money supply is based on the assumption that the multiplier (the ratio of the money supply to the money base) equals 1. Since "this never happens," it leads to an understatement of forecast rates of inflation and to "incorrect" calculations of financial indicators;

—the forecast assumes "an improbably high" elasticity of the GDP with respect to the volume of state investments;

—the forecast supposedly envisions a solution to the industrial crisis thanks to additional currency emission. This is supposedly in conflict with the "iron law" which says that "by increasing the money supply in nominal terms you simultaneously reduce it in real terms."

Let us point out that Mr Gaydar is wrong when he says that the formulations of our "group" (the laboratory of the Russian Academy of Sciences Institute of National Economic Forecasting) served as the basis for the Glazyev Program. He is obviously referring to our calculated scenario forecasts for the draft 1995 budget, which were sent out to the state organs, including the State Duma Committee for Economic Policy, headed by Mr Glazyev. In these calculations, one of the three submitted scenarios partly reflected proposals which the State Duma put forward while the draft 1995 budget was being deliberated (let us call it provisionally the "Glazyev"). Let us point out that the two other scenarios are based on the government's proposals. We can only be grateful to Mr Gaydar for not lumping us together, on this basis, with the formulators of the government's program.

Now, the gist.

Mr Gaydar's first mistake: curbing inflation by no means automatically leads to the economic growth that is supposedly attested by the experience of the post-socialist countries.

First let us note that the data cited in the interview (see Table), which Mr Gaydar refers to as the "definitive" argument in his dispute with his opponents, is fundamentally at odds with official statistics. In the first year of radical reforms in Russia, for example (1992), the GDP's decline was not 11 percent (this is shown on the Table) but almost twice that—19 percent.

Mr Gaydar's comparison of Albania and Belarus, Turkmenia and Poland is in fact, as he said himself, "beyond the bounds of possibilities of professional commentary." This resembles an advertisement for a universal cure-all: it is incorrect to compare the results of reforms in radically different economies without analyzing the specific mechanisms which brought these results about.

In Poland, for example, which serves as a showcase for "shock therapy," monetary policy was substantially milder than in Russia. The ratio of M2 to the GDP (in annual terms) in Poland during the price liberalization and financial stabilization period (late 1989 to early 1992) fell from 33 to 27-29 percent. In Russia, between late 1991 and early 1994 (the period that includes the two stages of "stern policy") this figure fell from 58 to 12 percent. The effect of this sharp shrinkage of the money supply was not so much to slow inflation as to reduce the scale of production (see Table).

As for our own country's experience, Mr Gaydar has had two chances to verify his thesis about the curative effect of "a stern and reformist" economic policy. And the results have proved quite similar.

The first experiment took place in early 1992, and the result manifested itself in the third quarter of 1992. The inflation level (wholesale price index) fell from 25 to 15 percent—that is, by 10 points. The production decline in annual terms rose from 15 to 25 percent—that is, also by 10 points.

The second experiment took place in late 1993 and early 1994. Inflation rates fell from 25 to 8-10 percent per month (15 to 17 points). Production paid for this "success" with a larger annual decline, from 15 to 27-28 percent (12 to 13 points).

Hence, for every point of victory over inflation using the Gaydar Method—that is, shrinking the money supply—the economy pays with a loss of 0.8 to 1 point of industrial production. What a new, third experiment in stern financial stabilization will cost us is something the curious reader can figure for himself.

You don't have to be a professional economist to realize that economic growth in Russia can take place only on an industrial basis founded on the investment and consumer sectors of the economy. But the Gaydar Method of stabilization hits hardest specifically at

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these sectors—machine building, the food base, light industry. World experience attests that steady financial stabilization has been achieved by countries which have succeeded in developing rather than destroying their industrial base, and have upgraded their exports.

Gaydar's second mistake concerns the two-sector model of the economy which, he thinks, is "not only impossible but also unnecessary" now in Russia. His logic is remarkable: the two-sector model is not necessary because it is a model of "soft exit" from the socialist economy, whereas, he says, we have already advanced far beyond that (toward the market, supposedly).

The relevance of the two-sector model is by no means confined to the "transition to the market" problem (although it is premature to speak of having solved it). More important is its structural (modernization) aspect. There are vast economic zones (including, in particular, the agrarian sector, investment machine building, and light industry) for which functioning under present conditions is fatal. At the same time, we cannot "shift" them onto imports, and not just because of social factors, either, but also because we don't have the necessary export potential to maintain a balanced foreign trade exchange on such a scale. Under these conditions, strengthening state regulation and forming a "two-sector model" is one possible way to structurally modernize the national economy, one that enables us to preserve our agrarian and industrial potentials and adapt them to the market.

Macroeconomic Indicators (rates of increase over previous year, percent)

	1990	1991	1992	1993	1994
	Change in GDP				
Poland	-10.5	-7.6	2.5	3.8	4.5
Hungary	-3.3	-10.2	-5	-1.5	1
Czechoslovakia*	-1.6	-14.7	-6.8	-.3	1.5
Bulgaria	-9.1	-11.7	-6	-4.2	-2
Russia	-2.4	-12.8	-19	-12	-15
	Inflation index (GDP deflator)				
Poland	480.1	50.9	36.5	35.3	30.8
Hungary	25.7	23.2	17.7	18.7	16.8
Czechoslovakia*	8.6	45.7	8.5	19.8	10
Bulgaria	26.2	227	58.4	71.3	70
Russia	...	132	1615	921	357
	Share of investments in fixed assets in GDP				
Poland	21.4	22.1	22.4	21.8	22.6
Hungary	20.2	19.8	19.3	19	19
Czechoslovakia*	29.2	26.3	29.3	30	30.5
Bulgaria	21.3	18.9	20.9	18.5	17.5
Russia	28.9	24.4	19.3	21.4	24
	Indexes of real wages (1990=100)				
Poland	72.6	72.7	70.7	70.9	72.2
Hungary	96.8	91.2	90.5	91.2	92.1

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	1990	1991	1992	1993	1994
Czechoslovakia*	94.2	70.3	63.9	62	62.4
Bulgaria	106.1	61.9	78	74.4	71.3
Russia	107	101	39.7	42.5	36.2

Sources: L. Baltserovich and A. Gelb (World Bank)—MEIMO, 1995, No 3, pp 112-113; Russian Federation State Statistical Committee; authors' calculations.

*From 1993, Czech Republic.

Gaydar's third mistake is the supposed working of "an iron law" which says that when the nominal money supply is enlarged its actual volume inevitably shrinks.

Such a "law" would mean that a nominal increase in the money supply leads to a faster rise in prices. But this is far from true! Neither in Russia nor in other countries are rises in price due solely to money emission. An analysis of particular inflationary factors' contributions to monthly rises in wholesale prices shows that the "money" factor in 1994 accounted for about 2 percent of the price rise points, the "expense" factor (higher prices on fuel, agricultural raw materials, and manpower) accounted for 4 to 5 points, and inflationary inertia accounted for about 5 points. Price elasticity with respect to an increase in the money supply is substantially less than 1, namely about 0.2 (that is, 1 percent of an increase in the money supply, with other factors remaining unchanged, causes prices to rise by 0.2 percent).

The primarily "expense" character of the Russian model of inflation is due to the following. Price liberalization did not eliminate but only changed the quality of the inflation potential of Russia's economy. In terms of its formation, two factors were critical: a) the sharp decline in the effectiveness of the use of productive potential, manpower, and energy resources; b) the disproportionality of price proportions (which took shape, in particular, under the influence of world prices) to the level and structure of current and capital expenditures. It is possible to reduce the inflation potential either by reducing a large percentage of capacities employed in production (which is the path we are taking); or by changing the price proportions in the domestic market; or by qualitatively modernizing the economy's production-technological base.

Gaydar's fourth mistake is probably anecdotal in character. What he says is that in our calculations the money multiplier equals 1, which serves to distort the inflation forecast.

Any college student knows that the money multiplier is practically always greater than 1. Otherwise, the entire increase in the supply of money would make its way into the banks' cash reserves; this is theoretically possible, of course, but is never realized in practice.

Evidently the aide who explained the content of the Glazyev scenario of the forecast to Mr Gaydar did not read his textbooks carefully. And Yegor Timurovich himself, misunderstanding, blundered. Mr Gaydar has blamed us for a mistake which in fact is not ours but is the fault of his own interpretation of our work.

In our scenario calculations, in fact, far from equalling 1, the money multiplier is actually rising compared to last year. Whereas it was 1.81 in 1993 and 1.72 in 1994 (using a comparable methodology), this year, if the scenario based on the proposals of the State Duma comes to pass, it would rise again to 1.8.

Things are not all that well in the government's version of the forecast of the money supply that was proposed to the State Duma in the same "package" as the draft budget. In the draft budget that was passed with the support of Mr Gaydar, the entire increase in the money supply (M2) is set in the amount of 55 trillion rubles. As is seen in the population's balance of income and outgo, the increase in cash will come to 25 trillion rubles, and the public's deposits will be 35 trillion rubles (6 percent of disposable income). Hence, to the accompaniment of talk about bankruptcies, the shortage of investment, and so on, the real sector is directed to reduce fund balances in its accounts by 5 to 10 trillion rubles. No multiplier is going to hold out here! This is where Mr Gaydar go ahead and criticize monetary policy and say "this never happens" (and here he'd be absolutely right).

Mr Gaydar's **fifth mistake** is his claim that the mechanism of stabilizing production in our scenario calculations is based exclusively on money emission.

The influence of credit emission on production and demand depends not so much on its scale as on channels of credit and control over their operation. Last year's experience showed that the successfulness of credit emission falls sharply from the standpoint of maintaining production. Due to the three- and fourfold

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drop in profitability in 1994, money quickly is flowing out of production into the sphere of circulation. In 1994, only 6 to 9 percent of the credit emission, reinforced in the second and third quarters, was "retained" in the circulation of the real sector. The result was the formation of an excess of hot capital that formed in times of high interest rates and is not being used in production. This "money curtain," concentrated in the sphere of speculative currency and financial deals, caused a collapse in the currency exchange rate in October of last year and destablized the price system.

In order for money to "go to work" in production and expand demand, these conditions are necessary: a) change price proportions in order to increase earnings in the real sector; b) expand state spending, primarily in investments, while keeping control over the budget deficit; c) normalize the turnover of circulating capital in industry.

Sixth mistake: Mr Gaydar thinks that the Glazyev Scenario has an unreasonably high investment multiplier (elasticity of GDP with respect to volume of investments).

The idea of using an investment multiplier is very simple and works this way. It is clear that budget revenues are not "neutral" with respect to budget investment spending: increasing state investments leads to a corresponding rise in production and, consequently, to enlargement of the revenue of the real sector; this revenue serves as the source for further boosting demand, and so forth. Calculations carried out on the basis of inter-sectorial balance show that at present 1 percent of a rise in investments makes it possible to additionally increase industrial production and the GDP by 0.2 to 0.3 percent.

Let us examine the effect of the investment multiplier as applied to this year's conditions. Maintaining the budget deficit on the level of 7 percent of GDP (inflation at 6 percent per month), state investments can be increased to about the 1993 level (5 percent of GDP). Taking account of additional spending of the real sector (from profit and amortization), stabilization is possible, and even a small rise in capital investments (101 percent over 1994). That is, relative to the volume of capital investments taking shape this year (inertial forecast: 82 percent over 1994) their additional increase will come to 19 points. Taking account of the investment multiplier, this brings about a corresponding four-point increase in industrial production, to 97-98 percent of the 1994 level.

Regarding the investment multiplier, two remarks must be made. First, surveys of enterprises concerning their investment intentions this year indicate that the real sector is ready to "digest" budget investments in an amount almost twice as large as last year. The necessary capacity is there, also the necessary in-process stock. Second, an intersectorial agreement has to be made concerning price policy (the fuel-energy complex, metallurgy, and transport) to limit price rises on fuel to the level of 50 percent of the wholesale price index. This will make it possible to boost the "productive" payback from expanding investment demand.

Russia generally does not have a surplus money supply but rather an acute shortage, especially in enterprise accounts. Despite all the government's waverings, a real toughening of monetary policy took place in 1993-1994. The inflation tax (losses by holders of cash due to price rises) declined from 20-24 percent of GDP in 1992 to 4-5 percent in 1994. However, this has not stopped the flight of capital or served to enhance the attractiveness of investments in Russia's economy. Problems of investments and savings are not solved automatically by reducing inflation and interest rates. A qualitatively new mechanism of interaction between the financial and production spheres of the economy is needed, also restoration of the processing sectors operating in the domestic market, and a flexible combination of the mobilizing role of the state and mass production-oriented entrepreneurship.

*Glazyev Criticizes Government Economic Reform Plan

954E0911A DELOVOY MIR in Russian 22 Apr 95 p 5

[Article by Sergey Glazyev, member of the State Duma: "Incompetence and Irresponsibility"]

[FBIS Translated Text] This is how we might briefly characterize the finally published government program "Reforms and Development of the Russian Economy in 1995-1997." It contains little that is new compared with the government studies of recent years and continues, in fact, the succession of irresponsible and utterly unsubstantiated promises. There should be no doubt that as a result of its realization the de-industrialization, breakdown, and compression of the economy, which have become familiar concomitants of economic policy, will continue. Thus in 1994 the decline in gross domestic product constituted 15 percent, in industrial production, 21 percent, and in agricultural production, 9 percent. The program for 1995 forecasts a further reduction in gross domestic product (by 5 percent) and industrial output (7 percent). This means that compared with 1991 the gross domestic product will have declined 43 percent, and industrial output, 48 percent. In other words, the government is offering us a plan of continued intensification of the crisis with very transparent hopes of

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growth in 1997 following a more than twofold overall decline in production and an even bigger decline in scientific and technological, innovation and investment, and defense potential. Nor does this come as any surprise—such promises have become a kind of tradition: Endure just one more year of recession, and then economic upturn will truly begin. It is obvious that these are empty promises—where is the growth to come from if in 1995 the government is planning a further reduction in capital investments of 11 percent, and in 1996, of 5 percent. But in 1994 even capital investments, according to figures of the State Committee for Statistics, had declined 62 percent compared with 1991. By 1996, they will accordingly have declined by 68 percent. The situation concerning capital investments in production is even more dramatic. In 1994 they had declined 70 percent compared with 1991. Considering the decline in 1995 of 19 percent and in 1996 of 10 percent, the overall decline in 1996 compared with 1991 will have constituted 80 percent! Compared with 1990, investments in 1996 will have declined 73 percent, including a decline in investments in production of 83 percent. It is unlikely that after so profound a decline in investments it will be possible to restore the material and technical base of investments in the future. We will, most likely, be importing from overseas both equipment and construction and installation services.

It Is Hard To Believe

that economic officials of the government do not know that there is no growth without investments or a way out of a structural crisis without the introduction of new technology and know-how. But, judging by the degree of realization of the government's forecasts, they are being prepared without any feasibility studies. Thus the government forecast of the country's economic development for 1994, which was presented only last April, proved wrong. According to the forecast, the decline in GDP was to have constituted 8-10 percent, and in industrial output, 12-15 percent, and inflation, by a factor of 4.7-5.2. In actual fact, in 1994 GDP declined 15 percent, and industrial output, 21 percent, and the inflation index constituted 324 percent (December to December). This story is being repeated in 1995.

The State Duma spent two months in conjunction with the government on specification of the main indicators of the draft federal budget. In the decision of the Conciliation Commission the government revised the preliminary estimate of the main parameters of the forecast of the socioeconomic development of the Russian Federation for 1995. According to this decision, GDP was forecast at the level of 930 trillion-1 quadrillion rubles [R], average monthly inflation at 2.5-3 percent, the decline in industrial production, at 10-15 percent, and the drop in investments, at 8-13 percent. The draft program, however, speaks of a decline in GDP of 5 percent, and of industrial production, of 7 percent, and of a level of inflation in March of no more than 7-8 percent and says that in the latter half of the year the average monthly rate of inflation should not exceed 1-2 percent. In other words, in parallel with the process of the voting of the budget in the State Duma and the Federation Council the government has adjusted in the draft program the indicators of economic development for 1995 that constitute its basis. But even their fulfillment is unrealistic. In actual fact, inflation in January constituted 17.8 percent, in February, 11 percent, and in March, 9 percent. Considering the inflation overhang of January-March of this year and also the trends of economic development, average monthly inflation in 1995 will be far higher than the 4-5 percent a month predicted by government forecasters.

With this adjustment the gross domestic product for 1995 should constitute approximately R1.5 quadrillion instead of R930 trillion-1 quadrillion, and treasury revenue with a level of tax receipts of 14.5 percent of GDP, approximately R225 trillion, instead of the 175.16 trillion assumed in the budget. Thus the revenue side of the budget fails to take account of approximately R50 trillion. Nor has the need for an increase in expenditure been taken into consideration. This, considering the maximally reduced budget expenditure, means a shortfall in the funding of all planned outlays by a factor of almost two. Such imprecision is excusable for students working on their degree thesis, but not for professionals working in government departments—millions of people, who do not receive their pay on time and who lose their jobs on account of forced production stoppages, pay for their mistakes.

To Excuse Their Mistakes

the members of the government responsible for economic policy usually refer to the impossibility of accurate forecasts under the conditions of the instability of the transitional period. We would note that the forecast estimates of the likely consequences of the policy planned by the government for 1994 made in the State Duma's Economic Policy Committee were borne out completely. The forecasts developed in the Academy of Sciences' Institute of Forecasting have invariably been confirmed all these years. So the reasons for the constant flagrant mistakes in the planning of economic policy are by no means the uncertainty of the transitional period. The reasons are to be found in erroneous decisions, a large part of which was adopted consciously, in defiance of the opinion of specialists and even com-

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mon sense. Of what there is more here—the delusion of dogmatists or disregard for responsibility to the society and the state—is not, in principle, important. The reader can draw the conclusions for himself.

For what, for all that, is the government hoping in declaring for the fourth time one and the same thing with the invariable result, which in any country would be unambiguously perceived as catastrophic for the economy and society. How is it planned to achieve the declared goals: to secure the stabilization of the overall volume of production and the resumption of economic growth, to ensure macroeconomic stabilization by the end of 1995 even, in the main, to stimulate the structural reorganization of the economy into highly efficient and competitive industries, to preserve the most valuable components of the accumulated scientific and technological potential, and to ensure a growth of the people's living standard?

The content of the program is astonishingly inadequately linked with the essence of the problems whose solution is indicated as being a principal task at the new stage of transformations: the deterioration in the financial condition and solvency of a large number of enterprises; the problem of the costs and quality and the competitiveness of Russian commodities and the problem of investments and the transformation of savings into investments; the problem of financial stabilization. Instead of a serious, substantive analysis of the causes of these problems, we are once again hearing the magical incantation of our "monetarist liberals"—liberalization, stabilization, privatization—which sets the teeth on edge. And, further, the budget deficit "has become the main, if not sole, source of inflation." The government is prepared for the sake of these "three biggies," on which the entire ideology of the pseudo-market reforms rests, to sacrifice not only the military-industrial complex or mechanical engineering but also the production of consumer goods, which not one "apology for a reformer" would, for certain, have dared say at the start of the reforms. True, "liberalism Russian-style" here is expressed in the fact that the state is putting its hand deeply into the pocket of the commodity producer, raking out more than half the value added, although the treasury is not getting any more money on this account since the scale of the "shadow economy," "shuttle imports," and the drain of capital is already comparable with the legal economy.

There Is No Dilemma Between the Fight Against Inflation and Recession

This has been common knowledge since the time when the energy crisis in Western countries led in the 1970's to the emergence of so-called "stagflation," that is, a combination of recession and high inflation. The reasons for this phenomenon, which is already described in textbooks, are not the surplus amount of money in circulation but the inefficiency of the economy, the inadequacy of the structure of the production and demand for goods, the time lag of the processes of technical and economic adaptation, the high monopolization of the economy, the insufficient competitiveness of the manufactured product on the domestic and foreign markets, the overstated pay demands of wage labor, the insufficient propensity for savings in society, the state budget's high loan capital borrowing requirement on the markets, and so on and so forth. For this reason the governments of foreign countries have pursued an active anti-inflation and anticrisis policy, employing the entire arsenal of means of state regulation of the economy, up to and including administrative limitation of the consumption of energy sources. So the economic policy being pursued by the Russian Government is, considering international experience, simply nonsense.

No one takes issue with the fact that to strengthen one's health one should exercise, refrain from harmful habits, and eat well. But are these recommendations sufficient for curing someone who is seriously ill, whose metabolism is upset, whose reason is impaired, and who has numerous fractures? The course of treatment which the government is doggedly prescribing for our economy is akin to the banal commonplace treatment "for all illnesses"—a glass of vodka, a hot shower, and an ice-water bath: If the organism holds out, he will not die. But this will hardly cure him. The pivot of the government program, if all the statements not underpinned by actual resources are cleared away, remains hope "of the off-chance": Confining its activity to a reduction in the rate of increase in the money supply, the government believes that this is the all-purpose stand-by with which all problems are resolved.

Truly, the core of the government's entire policy remains the artless argument: Reduction in budget expenditure—reduction in inflation—growth of capital investments—economic upturn. To facilitate the indoctrination of public opinion this chain of logic is elevated to the level of a symbol of faith by numerous incantations concerning the extraordinary importance of a balanced budget. Stern vows are solemnly uttered for plausibility: not to support production for production's sake, not to shut down the Russian economy, not to expand price control, not to use administrative levers of interference in the economy, and other caricature allusions to the proposals of the critics of the government program.

In actual fact, no serious economist criticizing government policy is proposing the support of production for

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production's sake, even less "shutting down the economy." Just as no one is propagandizing the usefulness of inflation or denying the paramount importance of its neutralization. The meaning of the criticism consists of the inadequacy of government policy to the actual economic problems, which does not permit the accomplishment of the goals and tasks that have been proclaimed. Specifically, for the fight against inflation it is proposed making use of an entire arsenal of measures including, together with a balanced budget, control of pricing in the monopolized spheres, the conclusion of agreements on a limitation of price increases, an end to price discrimination against consumers, the surmounting of the arrears crisis via an improvement in the structure of the money supply, the adoption of measures to squeeze foreign currency out of domestic turnover, and so forth. The government, on the other hand, taking as the starting point a primitivized notion of inflation as an exclusively monetary phenomenon, is confining the fight against it to a minimization of the budget deficit and an increase in the ruble money supply. It is ignoring even such obvious problems as an improvement in the structure of the money supply, which already consists more than 50 percent of arrears and foreign currency, the instability of the speed of currency circulation, and the inflationary influence of the decline in production and the demolition of industrial cooperation in the course of the privatization campaign. As a result, instead of the above-mentioned chain of dependencies lowering inflation, something quite the opposite is obtained: Decline in budget expenditure—reduction in demand for goods and services on the part of individuals and publicly funded institutions—surge of inflation. All this is supplemented by another chain of dependencies: Reduction in actual money supply—diminution in enterprises' working assets—increase in nonpayments—production slump—increased inflation.

Quite a large number of such actual effects of the policy pursued by the government, the reverse of those planned, could be cited. That same mass privatization has become, instead of stabilization of the macroeconomic situation, a factor of the growth of inflation and a decline in the efficiency of production and the criminalization of the economy. The attempt to switch to financing the budget deficit thanks to the unrestricted sale of government bonds is leading in practice merely to a rapid growth of budget expenditure and a decline in investment activity, and considering the Central Bank's role as their most important purchaser, to that same credit issue and increased inflation.

The paucity of content of the government program is compensated by the menacing rhetoric: "No attempts at economic recovery on the paths of concessions in the fight against inflation or an easing of financial and credit policy will be successful" or "the country's interests require the accomplishment of a strategic maneuver.... without futile populist-type concessions."

Set of Pious Expectations

As distinct from the message of the president to the Federal Assembly of the Russian Federation, which clearly characterizes the content of this strategic maneuver as a "relative reduction in the raw material sphere of the economy thanks to an increase in the structure of the gross domestic product of the share of manufacturing industry, particularly its research-intensive part, services, and intellectual activity," the government program, in fact, emasculates it and essentially represents a set of pious expectations and affirmations of its own helplessness. Thus in the description of the logic of the program a central place is occupied by the proposition concerning the impossibility of a "rapid increase in revenue.... An increase in the public debt—this is the price that will have to be paid for the radical lowering of inflation and the creation of the conditions for the normal development of the economy." Yet an appreciable increase in budget revenue may be obtained merely from the sources lying right there on the surface. Merely raising to an economically justified level the export duty on oil and gas representing a form of the confiscation of natural rent from exported natural resources would make it possible to obtain additional revenue in an amount of $2 billion a year. The curtailment of duty-free commodity imports would provide, considering all the customs payments, an extra $10-15 billion a year. A transition to normal methods of the privatization of state property would make it possible to raise state revenue tens and, possibly, hundreds of times—this revenue is today frequently appropriated by speculators reselling the shares of the privatized enterprises. Finally, an elementary enhancement of tax discipline and the elimination of forms of the legal avoidance of taxation well known to the government would produce several trillion rubles of additional budget revenue. We would note that taking such appreciable funds from the taxpayers with the current financial situation in production is impossible—they simply do not exist.

But the transition to economic growth and an increase in the income and expenditure of the state should occur gradually, in just the same way that the process of the reduction in production and the diminution in taxpayer income and the tax base unfolded. For example, the additional revenue from an improvement in the rate of the collection of taxes in foreign and domestic trade could be channeled into the clearing of the state's indebtedness to the manufacturers, the

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funding of the defense order and R&D, the fulfillment of approved investment programs, and an increase in pensions, allowances, and pay in the publicly funded branches. This would not only signify a revitalization of economic conditions but, with decisive actions aimed at compliance with the requirements of banking, currency, customs, and tax legislation and a strengthening of payments discipline, would ensure the return to the budget of enormous additional funds (particularly at the first stage of the clearance of the arrears). The increase in final demand and the income of the manufacturers and the populace and the growth of the scale of production would reduce the costs and inflationary potential of production. Of course, it is essential to lower appreciably the aggregate tax burden here (if only to 30-40 percent of value added). The declining budget revenue could be compensated thanks to the noninflationary issue of money with the introduction of the full internal convertibility of the ruble and a ban on all transactions involving foreign currency on the territory of the Russian Federation, except the servicing of current transactions. This, in turn, presupposes an effective system of currency control, which the Central Bank of Russia in conjunction with the government has been unable to create for four years now. But harboring illusions that financial stabilization may be achieved with the current level of "dollarization" of the economy is permissible only perhaps for children of preschool age, for Russian schoolchildren have already clearly grasped that money is green and has inscriptions in a language other than Russian. And the ruble is called "wooden," although it ceased to be a realistic unit long since.

Of course, all the enumerated measures require daily, strenuous, and largely dangerous work. It is far easier to incur debts—others will pay them off, all the same. The government is embarrassed here neither by the outflow of capital from the investment sphere nor the rapidly growing cost of the servicing of debt instruments (up to 30 percent of budget expenditure for the coming five-year plan) nor Russia's entrapment in a debt snare of foreign creditors. Once again there is nothing new here. This is the well-known principle of operation of temporizers—redistribute everything as quickly as possible, and apres nous, le deluge.

The unfounded nature of the choice of economic strategy, the inclination of the government toward a resolution of current problems at the expense of future revenue, and the absence of a clear logic of realization of the program predetermine the sham nature of the goals set in the program. This is indicated by a simple comparison of these goals with the budget recently voted on the recommendations of the government.

The program, in turn, abounds not only in manifest contradictions with the budget that has been adopted and the message of the president to the Federal Assembly but also in intrinsic contradictions on fundamental issues. Thus the section "Macroeconomic Policy" speaks of the government's refusal to use such an instrument of the stimulation of investment activity and structural policy so widely employed in many countries as soft loans. In aggregate with the extensive program of domestic borrowing for funding current budget expenditure this means a sharp reduction in the already manifestly insufficient level of investment activity. The section "Investment Policy and Structural Reorganization," meanwhile, contains many statements concerning the need also for the government subsidizing of private investments and the implementation of federal programs for the structural reorganization of the economy and points out specific directions of modernization of branches of the national economy. In the federal budget state investments are cut by one-third compared with 1994, and investments in production constitute only 25 percent of this meager level, what is more.

Very Nugatory Considerations

The subsection on the budget and tax reform proposes from very nugatory considerations concerning a reduction in the cost of servicing of the foreign debt a rise in the real price of the ruble, which would inevitably entail a further deterioration in the competitiveness of Russian commodities and an increase in imports and would also create a threat of destabilization of the currency market and a future recurrence of Black Tuesday. It is proposed as a compensating measure making active use of instruments of the tariff regulation of foreign economic activity. At the same time, on the other hand, the section on foreign economic activity speaks of the government's intention to continue to unilaterally lower export and import duty, of the renunciation of an increase in the average-weighted import tariff, and of cancellation of the export tariff in the near future. In aggregate these measures will cause a serious deterioration in Russian commodity producers' competitiveness on foreign markets with a simultaneous further opening of the domestic market. And this under conditions where, under the influence of foreign competition, Russian enterprises of manufacturing industry have already lost half the domestic market. Contrary to the plain directive of the president's message, the government intends to continue a policy of actively facilitating imports to the detriment of the interests of our own economy and Russian enterprises. Only our government, for which the expectations of foreign organizations are more important than the interests of our own commodity manufacturers, the millions of people employed in industry, and the deci-

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sions of the president and the Federal Assembly, would, most likely, act this way.

While making unprecedented unilateral concessions in opening up the home market and ensuring favorable currency procedures for importers, the government has not once adopted any measures to protect if only one of the branches of our own industry, which have cut back production many times over under the influence of the flood of imported goods. Nor have measures to stimulate exports been adopted. The numerous passages on this score are essentially pious expectations since they are not bolstered by any real resources. The budget that has been voted contains neither a program of the development of exports nor the formation of an export-import bank nor other measures to support the competitiveness of our industry.

Many other areas of the program are also essentially of the nature of pious expectations at odds with actual policy (as defined by the Federal Budget Act and the government statement to the IMF). Such aims of the program as a resumption of economic growth, a stimulation of structural reorganization and preservation of the most valuable elements of the accumulated scientific and technological potential, and a growth of the people's living standard appear quite odd against the background of the almost threefold reduction in investments compared with 1991 planned for the end of the year. The directions of economic policy drawn in development of them are condemned to remain on paper, as has been the case for the past three years. No realistic provision is made for the allocation of money in a sufficient amount for the development of the infrastructure or for the support of competitive industries or for the support of private investments or for the continuance of the current social safeguards or for furtherance of the citizens' employment or for the development of housing construction or for the other tasks prescribed in the program. We would recall that last year the federal investment program was fulfilled 31 percent, and the corresponding budget expenditure was underfunded almost 50 percent. Judging by the adopted budget, the situation this year will be even worse.

It is obvious that under the conditions of the continuing growth of the slump in production and investment activity the principle declared by the government of a winding down of state participation in capital investments will lead to a further deepening of the slump, whatever new forms of support of private investments are proposed. Under these conditions it will not be possible to achieve even the stabilization goals—the growing production slump accompanied by an intensification of the arrears crisis will provoke another bout of inflation at the end of the year. A sharp rise in spending on servicing of the public debt could be an additional boost to the acceleration of inflation. With such a policy possibilities for a resolution of the problem of the restoration of individual savings will not be found either—the corresponding passage in the program will remain on paper only.

The sole thing that the government will succeed in doing, most likely, will be to realize the cherished desires concerning the continued redistribution of property via arbitrarily established privatization programs and to secure the conditions for the importation of foreign capital. These priorities of actual policy remain invariable. Despite the State Duma having deemed the results of the privatization of state property to be unsatisfactory, the temptation to continue the division of state property is great. The desire to sell off the assets remaining to the state as soon as possible will not be halted either by the sharp criticism of parliament or the immense number of crimes in the soil of the redivision of property or the immeasurable damage to the state deprived of its assets for a pittance or the manifest decline in the efficiency of production as a result of the collapse of industrial cooperation and the disruption of management processes.

In spite of the agreement with representatives of the State Duma and the president's message, the property distributors from the government have no intention, judging by the program, of regularizing this process and imparting legal form to it. This part of the program is written in intentional casual fashion—in the spirit of general directions, without any calculations or substantiation, leaving the executants with complete freedom of decisionmaking without any control. Arguments concerning the benefit of the bankruptcies of insolvent enterprises with total disregard for the most complex socioeconomic problems connected with them are served up in the same style.

The Attraction of Foreign Investments

creates the impression that this is the government's main hope. For the purpose of encouraging foreign investors it is planned to grant them a five-year moratorium on a change in legislation, exempt them from customs payments, create a regional information infrastructure for the servicing of foreign investors, and so forth. It would seem that for a Russian enterprise to obtain the support of the Russian Government in the implementation of capital investments in the development of production it will have to set up an offshore company in order to pretend to be foreign.

Many problems of the country's socioeconomic development have been ignored by the government altogether. The manifestly progressing de-industrialization

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and the destruction of the country's scientific and intellectual potential, which under modern conditions are the main source of economic growth, and the breakdown of the human potential have not been noticed by the government, as it were. The total letdown and complacency are particularly surprising against the background of statistical data on the rapidly progressing degeneration of the population from disease, stress, alcoholism, and its unsettled circumstances. Lulling itself with arguments about the self-regulation of the market economy, the government leadership is, to all appearances, living in expectation of a miracle, calmly looking on at the pace, a record by modern historical standards, of the destruction and squandering of the very great economic potential of the most powerful country of the second millennium.

According to the periodization of the economic reform proposed by the program, we are at the present time in a process of transition from the crisis stage to the stage of stabilization. At the first stage the government manifested total bankruptcy in a resolution of urgent economic problems, which it itself confessed: "The hallmark of this stage is that, whatever measures are adopted by the government, they will produce no visible rapid positive results." You could not put it more clearly, as they say. The problem merely is that with this composition of the government the second stage will never come. This is indicated by the objective results of the policy that it has been pursuing, the annual transfer of the timeframe of the transition to the "second stage," and the forecast of the anticipated 1995 results. If this attitude of the government toward its duties persists for one more year, in 1996 we will be experiencing for the fourth time, instead of the second stage promised in the program, that same "first stage." And it is possible we will not live to see a fifth. The majority of the population, in any event, which is declining by almost 1 million persons a year as it is. Some will not live to see it in the literal meaning of the word. Others' patience will snap and they will switch to nonparliamentary methods of political struggle with all the ensuing consequences. Yet others are even now transferring money and children "beyond the cordon," knowing full well the entire ephemerality of political balance in the country based on the lack of rights of the legislature, the irresponsibility of the executive, and the apathy of a populace disappointed in its hopes of an improvement in life as the main result of the democratic reforms in the country.

*Official Views Export, Currency Control Measures

954E0937A Moscow DELOVOY MIR in Russian 29 Apr 95 p 3

[Article by Rustam Safaraliyev, deputy director of the Federal Service of Russia for Currency and Export Control and executive secretary of Eksportkontrol of Russia: "Exports Are Not Just Products. Exports Are Currency. How Can It All Be Controlled?"]

[FBIS Translated Text] The spread of nuclear and other types of weapons of mass destruction, missiles and delivery systems, and advanced technologies of military production, in combination with certain countries' attempts to use them in pursuit of their military and political aims, including the settlement of regional conflicts, pose an immediate threat not only to international stability but also to the Russian Federation's vital interests, because most existing and potential hotbeds of tension are located in the immediate vicinity of Russia's borders. Of special concern is the fact that countries that are trying to possess weapons of mass destruction are less interested in acquiring the weapons themselves and more interested in creating their own scientific-technical and industrial potential for weapon development and production.

Under these conditions, the state must play a much greater role in regulating exports of dual-use materials, equipment, and technologies in ways that optimally harmonize openness in Russia's economy and the needs of national security and compliance with international obligations regarding the nonproliferation of weapons of mass destruction.

The crucial instrument for achieving this goal is export control exercised in the system of the Russian Federation's organs of state administration, whose basic task is to exercise control over exports (transfers, exchanges) of particular types of products to foreign countries, namely raw materials, supplies, equipment, technologies, scientific-technical information, and services which can be used to develop armaments and military equipment, as well as materials, equipment, technologies, and services designed for peaceful use but which can be used to develop weapons of mass destruction and missile delivery systems.

The Russian Federation's export control, which covers all types of foreign economic activity, including military-technical cooperation, scientific-technical liaison and production cooperation with foreign countries, and border and coastal trade, is not of a prohibitive character and is not directed against any particular country or group of countries based on ideological or political

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concerns, except for sanctions instituted by decision of the UN Security Council.

In accordance with Russian Federation Presidential Edict No 388 dated 11 April 1992, "Measures To Create a System of Export Control in the Russian Federation," a functioning export control system has been created which meets all international standards.

In order to implement a unified national policy of export control, also to coordinate and provide organizational-methodological supervision of operations in that sphere, a Russian Federation Commission for Export Control has been set up under the government of the Russian Federation (Eksportkontrol of Russia).

The Commission is made up of key ministries and departments such as the Foreign Affairs Ministry, the Defense Ministry, the Ministry of Foreign Economic Relations, the Ministry of the Economy, the Federal Service of Russia for Currency and Export Control, the Foreign Intelligence Service, the Federal Counterintelligence Service, and others on the level of their chiefs or deputy chiefs.

Eksportkontrol is headed by O. N. Soskovets, who is first deputy Chairman of the Government of the RF.

The Commission's high status in combination with its inter-departmental character will ensure the priority of national interests over narrowly-departmental or corporate interests in working out solutions to various problems of export control relating directly to questions of national security.

As a rule, meetings of Eksportkontrol will examine the most important problems relating to the formation and implementation of a unified state policy in the field of export control, the functioning of the export control system, also matters relating to perfecting the normative-legislative base of export control and implementation of international cooperation in the field of nonproliferation of weapons of mass destruction and other especially dangerous armaments.

A new stage in efforts to improve the effective functioning of the export control system in the RF and to develop and improve the organizational foundations of the activity of the Commission, was the RF government's passage of Decree No 1005, dated 30 August 1994, titled "Matters of the Organization of Export Control in the Russian Federation," which expands the functions of the Russian Federal Service for Currency and Export Control as applied to supporting export control efforts in the RF.

The normative-legal base of export control in the RF consists of an enumeration and lists and of controlled goods and services confirmed by the President of the RF, also provisions governing the control of exports thereof, approved by the government of the RF.

The work of the export control system is based on an export-authorizing procedure which stipulates the obligation to obtain export licenses and customs declarations of controlled goods and services by any subject of business activity, regardless of the form of ownership involved in the exports thereof.

In this connection, vital elements of the export control system are the licensing of exports, which is handled by the RF Ministry of Foreign Economic Relations and its representatives in various parts of the country, and customs control, which is handled in the system of the RF's customs bodies.

Grounds for obtaining an export license are Eksportkontrol's authorization to export a controlled product or service, the preparation of which, in accordance with procedures established by the government of the RF, is handled by specialists of the Russian Federal Service for Currency and Export Control after comprehensive analysis and careful inter-departmental processing of all the necessary documents and circumstances involved in the specific export deal.

In accordance with legislation in force, one essential condition for obtaining Eksportkontrol's authorization to export dual-use goods and services is that the exporter must notify the importer of his obligation to use them exclusively for their declared purpose, unrelated directly or indirectly to the development and production of weapons of mass destruction or missile delivery systems, also forbidding reexport to third countries.

The mandatory requirement of guarantees on the end use of imported dual-use goods and services for their declared purpose is an internationally recognized norm and is reflected in laws governing export control in most of the industrially developed countries of the West. In the RF, the system of providing these guarantees was put in force by RF Governmental Decree No 1030 dated 11 October 1994, "Control of Compliance With Obligations on Guarantees of the Use of Imported and Exported Dual-Use Products and Services for Declared Purposes," and includes procedures for drawing up the Russian import certificate and the certificate confirming the delivery and certificate of the end user, stipulating the drawing up of the obligations of Russian enterprises and organizations regarding the importing of dual-use products and services into the RF, using them for their declared purposes, not conveying them to other subjects of business activity within Russia, and not reexporting them to third countries.

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The RF's establishment of an effective export control system makes it possible not only to prevent unauthorized exports, including attempts by foreign firms, under the guise of implementing programs of cooperation in the field of conversion, to use advances in Russian science and technology to the detriment of the RF's national security, but also to enhance Russian enterprises' responsibility in terms of compliance with the state's interests.

Under conditions of energetic efforts by the international community to curb the spread of weapons of mass destruction and other highly dangerous types of weapons, one of the most important conditions on the effectiveness of national export control systems in the various countries is a concerted set of requirements and mechanisms of functioning on the basis of shared guiding principles and control procedures.

At the same time, cooperation in export control must be in the nature of a partnership with equal rights, so that the national interests of the individual countries are not infringed.

These principles are fully complied with in the policy conducted by Eksportkontrol jointly with the RF Foreign Affairs Ministry, the Russian Federal Service for Currency and Export Control, and other concerned ministries and departments, designed to develop and strengthen international ties with foreign countries in the field of export control with the aim of integrating the RF's export control system into an aggregate of multilateral arrangements, recognized and supported by the world community, to prevent the spread of weapons of mass destruction, missile delivery systems, and other highly dangerous types of weapons.

Russia's membership in international export control arrangements is consistent with its national interests and will make it possible to enhance the RF's political weight and authority as a civilized member of the world community that is dedicated to the goal of nonproliferation of weapons of mass destruction and other highly dangerous types of weapons, and will also make it possible to influence international trade in high-tech products and technologies in Russia's interests.

Since 1992, the RF has been a member of the Group of Nuclear Suppliers, whose basic purpose is to exercise export control in order to stop the spread of nuclear weapons.

In his annual message to the Federal Assembly of the Russian Federation, RF President B. N. Yeltsin said that Russia's full-fledged, full-scale participation in the RKRT [arrangement to control missile technologies], the new export control mechanism that is replacing COCOM, is one of the most important foreign policy tasks of 1995.

Right now, preparations are nearing completion for Russia's official membership in RKRT. The RF's forthcoming membership in RKRT was approved by all the participating countries in the arrangement at a plenary session held in Stockholm in October 1994.

Things are not going easily in the dialogue with leading Western countries regarding the RF's participation in drawing up a new multilateral structure on export control to take the place of COCOM, which has been liquidated. The need for Russia to join this process as soon as possible is acknowledged by all the founding states, and the main obstacle in this regard is the peculiar position of the United States and certain other countries regarding Russia's military-technical cooperation with Iran.

Active talks and consultations are underway with member states of the multilateral arrangement of export control over the production and technologies of dual-use chemical and biological items (known as the Australian Group) with respect to the RF's membership in that arrangement.

Eksportkontrol ascribes great importance to matters of organizing cooperation and partnership with the CIS countries in the field of nonproliferation of weapons of mass destruction and missile delivery systems; moreover, it emphasizes the necessity of coordinating efforts and providing mutual aid in the development of individual national export control systems.

How effectively the RF's export control system functions depends largely on working out a correct state policy on export control, shaped on the basis of both strategic and tactical tasks that face Russia with respect to ensuring state security, developing foreign ties, carrying out economic reforms, and other factors of the RF's socioeconomic development.

The RF's policy course toward integration in the system of world economic ties, the entry into the foreign market by an increasing number of subjects of business activity producing high-tech and science-intensive goods, and the activization of trade-economic and scientific-technical cooperation with foreign countries are all factors that entail the necessity of greatly enhancing the effectiveness of export control. One vital aspect of this effort is the further development and improvement of our legislation, including the need to bring the existing normative-legal base into conformity with generally acceptable principles and norms of international law and international standards in that sphere.

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The top-priority tasks in this regard must include the drafting and passage of a Russian Federation law on export control which will lay the legal foundation, stipulate the goals and tasks of export control, define the organizational structure of the export control system, and legislatively stipulate the rights, duties, and responsibilities of organs of state authority and subjects of business activity with regard to obeying the rules and procedures of export control. Work on the draft of such a law is underway.

In order to give Russian society a better understanding of the goals and scope of the activity of the export control system, the following basic elements reflecting the importance of this function of state administration in the Russian Federation need to be emphasized:

1. The fact that the RF has an effective, functioning export control system designed to curb the spread of weapons of mass destruction will graphically demonstrate to the world Russia's fidelity to its political declarations concerning the impermissibility of allowing the proliferation and use of such weapons, also Russia's readiness to fulfill its international obligations in that regard—not in words but in deeds.

2. It is impossible for Russia to join the world division of labor on an equal footing, shape its industrial potential on the basis of the latest advances in world science and technology, and engage in international scientific-technical exchange under today's conditions unless it takes part in international organizations and arrangements of export control and develops an effective national control system and fulfills every norm that has been adopted within international organizations and arrangements. Otherwise, Russia's access to advanced technologies may be severely limited.

3. The broad thematic coverage of the control enumeration and lists of practically all high-tech directions in today's science and technology brings thousands of enterprises and organizations of various types of ownership into the sphere of the export control system, thereby exerting a disciplining effect in terms of compliance with Russian legislation and state interests.

The existence of the export control system and the necessity of complying with its requirements are becoming a reality for an increasing number of business executives and entrepreneurs, one that has to be reckoned with and taken into account when conducting dealings with foreign partners.

Questions of export control are always the focus of attention of the President and government of the RF. It is important for the necessity and significance of this function of state administration, its interconnection with problems of foreign policy, economic reform, the conversion of the defense industry, and the protection of national interests, to be recognized not only by representatives of the legislative and executive branches but also all subjects of foreign economic activity; this will serve to strengthen our state's security.

***Report on May Government Budgetary Session, Agenda for 1995**

954E0940A Moscow KOMMERSANT-DAILY in Russian 5 May 95 p 3

[Article by Vladislav Borodulin: "The Government Does Not Need the Banks' Money Until Fall"]

[FBIS Translated Text] **The authorities' noticeable coolness toward a banking consortium's proposal on a "credit secured by state shares" deal was explained at yesterday's government meeting. The "complicated, but still suggestive of a certain optimism" situation with respect to the execution of the budget is making it possible, for the time being, for the government to get by without extraordinary measures for its execution. This is precisely why Viktor Chernomyrdin's cabinet can allow itself a minimum 2-month pause for a "careful, paragraph-by-paragraph study of the banks' proposals." However, it is evident that the situation may change quite rapidly: even by fall, an acute shortage of money may make the government less fastidious.**

In addition, the cabinet's agenda up to year's end was approved at yesterday's government meeting.

[Boxed material follows]

Prior to January of Next Year, the Government Intends To Draft:

a Tax Code (December), a Law on Criminal Liability for Giving False Information in an Income Declaration (December), a Law on Real Estate Taxation (October), a Law on the 1996 Federal Budget (September), a Decree on the Suspension (Revocation) of Individual RF Government Decisions (May), a Decree on Granting Credit for the Production of Export Commodities and Transactions (May), a Decree on the Development of Consumer Credit (July), a Law on Compulsory Insurance for Citizens' Deposits (October), a Decree on the Additional Stimulation of Private Investments (July), a Law on the Use of Russian Capital Abroad (December), a Decree on the General Conditions for the Issuing and Circulation of Federal Loans (May), a Decree on Special Features of the Issuing and Circulation of State Securities Which Stipulate the Right of Their Holders To Obtain Gold Ingots (May), a Decree on Investment Banks (September), a Decree on the Privatization of the State's Share

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in Commercial Banks' Capital (October), and an Edict on the Development of a Real Estate Market (January of 1996). [End of boxed material]

The original outburst of enthusiasm with respect to the proposal of a banking consortium to grant credit to the government in exchange for the right to manage the shares belonging to it captivated to an identical degree both the idle public and the bankers themselves. Last week, when the deadline verbally set by the government for making a decision on this matter expired, the president of the Capital Savings Bank, Aleksandr Smolenskiy, even stated that the government was about to publish its decision officially. However, it was clear that this would not occur. Not just because, for the entire month, the members of the government were tossing out only lame statements like "I support the idea on the whole, but I still need to think about it." The fate of the banks' proposal is being determined, first of all, by the condition of the state's finances and this is why it was not possible to make a decision at all until the examination of the first quarter's budget results.

Table 1. 1995 First Quarter Federal Budget Revenues (in Billions of Rubles)

Revenues	32,047.75
1. Central Bank Profits	875
2. Sale of Gold and Currency Reserves	1,491.35
3. Non-Tax Revenues	6,363.91
4. All Types of Taxes	26,318.2

Table 2. 1995 First Quarter Federal Budget Expenditures (in Billions of Rubles)

Expenditures	39,668.94
1. International Activities	3,484.3
2. National Defense	8,315.16
3. Law Enforcement Activities	3,344.9
4. Expenditures on the National Economy	6,253
5. Social Sphere	2,870
6. Servicing the National Debt	5,274
7. Other	60,025.55

Table 3. 1995 First Quarter Federal Budget Deficit

Deficit	7,621.19[1]
1. Central Bank Credit	3,475
2. Sale of Securities	3,329.1
3. Treasury Obligations	3,099

Note 1: The total of the sources for covering the deficit is greater than 7,621.19 billion rubles [R], inasmuch as R1,942.3 billion were directed toward the repayment of the foreign indebtedness.

KOMMERSANT-DAILY reported on Wednesday on the basic results of the execution of the federal budget in the year's first quarter and now we are repeating just the most important items. The government is not having any special problems with revenues — the plan with respect to them has even been exceeded by 3.3 percent. However, these "excess revenues" clearly did not meet the state expenditures which were funded in all only by 82 percent — the government, restricted to the limits of "noninflationary funding of the deficit," was unable to find adequate funds to cover it. However, the failure of the new budget policy in the first quarter was rated as a disappointing but temporary setback and this is why the government decided that, in analyzing the banks' proposal, it could well allow itself certain whims. Yesterday Finance Minister Vladimir Panskov defined specifically certain items which did not suit the government. According to him, the Minfin [Ministry of Finance] will present the final wording of its complaints "before the holidays," but it is already now clear that the government cannot agree to the proposed interest rate (the LIBOR [London Interbank Offered Rate] plus 3 percent) and the period for granting the credit (no more than 2 years). The head of the Goskomimushchestvo [State Committee for State Property Management], Sergey Belyayev, added that the instruction to the government to examine the banks' proposals with a 2-month period had been "beaten" into the already almost finished Presidential Edict on Measures To Ensure the Guaranteed Payment Into the Federal Budget of the Revenues From Privatization in 1995. In other words, there will not be any significantly large-scale extension of credit to the government by the banks before the third quarter (although, according to Belyayev, even now, the ONEKSIMbank [export-import bank] has received control of shares of RAO [Russian Joint-Stock Company] Norilsk Nickel).

The authorities' slow pace is further explained also by the forecast of the budget situation in the second quarter. According to the Ministry of Finance's calculations, the

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government will not need the banks' credits, inasmuch as, before July, it will be able to attract R2 trillion through the "Central Bank's promotion of GKOs [State Short-Term Bond] in the secondary market" and R2.2 trillion through a "reduction in the currency reserves." In addition, the emission of the State Short-Term Bonds and new-series securities (which, evidently, will begin circulating as of June) will make it possible to attract R3 trillion and R1 trillion, respectively, while MVF [International Monetary Fund] credit (in the amount of around R5.5 trillion) will help to cover the deficit by an amount of around R3.8 trillion.

Thus, the government is confident that it will succeed in attracting R11.3 trillion to fund the deficit in this quarter and to raise somewhat (up to 86 percent) the budget's spending items and without borrowing money from the national banks. However, even by fall, the situation may change basically — government spending increases sharply by the end of summer (due, for example, to the extension of credit for agriculture and the shipments to the north) and the already tested instruments for covering the deficit may prove to be inadequate (any attempts by the Ministry of Finance to reduce state spending, for example, by a temporary moratorium on the payment of budget advances, naturally, evoke a negative reaction from the sectorial ministries). And so then a second outburst of government interest (this time much less finicky) in the banks' credit resources is quite possible.

***Shortages in Bank Reserves Viewed**

954E0915A Moscow BIZNES I BANKI in Russian No 17, April 95 pp 1-2

[Article by A.Ya. Tsemyanskiy, chairman of the board of the Depositary-Clearing Bank: "The Bank Has Solid Reserves"]

[FBIS Translated Text] What is happening with our banking system, and what could be the consequences of today's difficulties? I would like to draw attention to several important tendencies that may suggest answers to these questions.

During the past four years, we have seen unusually rapid development of the banking system in the country. Banks have sprouted up like mushrooms after a rain—no country in the world has seen such a rate of quantitative growth. Now these rates have decreased significantly and bank liquidations have begun to occupy a significant place in the statistics. What is this—regression? Or perhaps this is the beginning of a dialectical process of a shift from quantity to quality under conditions of improvement of banking legislation and forms of banking oversight.

Two tendencies can be clearly traced in banking. The first consists in qualitative improvement of the banking system. This is reflected in the appearance of solid, stable banks which have passed through the stage of initial accumulation of capital and already have considerable amounts in their authorized capital funds and have formed significant internal funds. At the same time, one cannot but see that many banks have appeared sporadically, without an in-depth analysis of the possibilities, and as a result now they do not have a sufficiently reliable clientele. In brief, the banks that are developing successfully are the ones that began to perform a social function from the very beginning and the credit institutions without the corresponding clientele have ended up in a difficult position.

Let my colleagues excuse me for "degrading" the social status of their brainchild, but one must admit that a bank, like a drugstore, a bakery, or a post office, is created for everyone. Every "man in the street" must know where the bank is located. And therefore, every self-respecting bank must consider it an honor to have a branch in each city on its main street.

The bank's place is among the broad segments of the population, among the enterprises, businessmen, and merchants. In a word, the bank is for everyone. In our country, unfortunately, many of them have become, in one current terminology, command banks, and in another—company banks that have narrowed their base to the point where they serve only certain entities. These entities (enterprises, organizations, funds) have accumulated money, they have pooled it in the form of a bank, and they sit and "bank" on it, generally not wanting to part with it. They pay their own interest, they grant themselves credit, and frequently they write it off themselves. Such compliant banks do not have broad public sources of refinancing. As a rule, they do not enter the market that involves individual deposits from private individuals and work mainly in the interbank market specializing in the area of deposit arbitration. It is true that these banks are not subject to the impact of a crisis, since the sources of their funds and their borrowers are known, and their support is too, and so the risks are minimal. But these banks are not full-fledged banks, and therefore they are unable to serve either as a standard or as an example of stability.

Real banks reach out to the broad public, and the public not only invests money but also demands the corresponding service and requests credit. Here we see real risks, which, if not handled properly, could lead to crisis phenomena. But, frankly, losses and unrepaid credit are a typical phenomenon in banking. One well-known banker has said: A commercial bank means primarily risk, then a period of indeterminacy, which,

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as a rule, ends with profit, but the latter may suddenly turn into losses. This says it all: The commercial bank means primarily risk.

Banks that handle all transactions with a broad segment of the population apparently have by now already created a certain amount of so-called questionable indebtedness. We do not like to call negative phenomena by their real names, and therefore we sometimes forget about the gradation of the concept of indebtedness that is accepted throughout the world. Indebtedness can be delinquent, questionable, or hopeless. If we look at the billions the commercial banks have in defaults, we can say with confidence that these debts will not be repaid and they will become hopeless. When a bank has hopeless debts, the hour of crisis comes. But we must be aware that such crisis is typical not only of us, but also and particularly of foreign banks. We too always have a certain proportion of bad debts. But foreign banks create special reserves for bad debts as a kind of cushion for a "rainy day." In our country the concept of reserves is still amorphous and unspecific.

Of course, commercial banks have their mandatory reserves in the Central Bank. But are they insured against all unexpected occurrences? After all, there are various kinds of risk. The risk of failure to repay credit is one thing, but it is another thing when there is a crisis of liquidity, when it is impossible to get money on the market. In a difficult position, a commercial bank can theoretically obtain its reserve funds from the Central Bank. But the problem is that the commercial bank does not have any idea of how the Central Bank is handling its funds or what the Central Bank would do if the commercial bank applied to it for its reserves. Complete confidence is lacking here. And yet throughout the world the mechanism of a special reserve account is used as a regulator of the liquidity of the monetary market. There the commercial bank always has access to its reserve fund. This is an objective necessity for solving the crisis problem.

It has turned out to be very difficult to solve the problem of the banking reserve in Russia, because the interests of the commercial banks, the Central Bank, and the Ministry of Finance of the Russian Federation are still at odds. The last, as we know, strives to obtain as much money as possible from the banks in the form of taxes. But the functions of the Ministry of Finance and the Central Bank as regulators of the financial-monetary system consist in protecting, preserving, and reinforcing the banking system and not "fleecing" it. Last year the latter version prevailed: The banks paid all of their taxes, but as a result they ended up "fleeced" in the money market.

One never ceases to be amazed at the persistence, which is worthy of better application, with which the Ministry of Finance and the Central Bank each pulls in its own direction, and they are unable to find mutual understanding or a normal working consensus for the sake of improvement of the banking system. Since the first postwar years, the Ministry of Finance has regarded the State Bank as a milk cow and does not wish to refrain from milking it in the future, gaining money to cover the state budget. But now the economy is different, the times are different, and the tasks have largely changed, but the mutual hostility remains.

Instead of giving the banks and other financial institutions the opportunity within, say, a year to create reserves against questionable and hopeless indebtedness before paying taxes, this single possibility of survival during all the years of the existence of the commercial banks has been taken away. Let me emphasize once again that since the beginning of their activity, special reserves have had to be created by the banks out of gross profit before the payment of taxes. Here, as usual, we have taken purely our own path, completely ignoring the experience and practice in all other countries of the world.

And it would seem that long-standing intergovernmental disagreements were regulated with the adoption of the Decree of the Government of the Russian Federation No. 490 of 16 May 1994 which, among other things, dealt with questions of determining the tax base for payment of taxes by banks and, consequently, also the determination of the base for the creation of reserves for questionable indebtedness.

The Central Bank, in keeping with the authority granted to it, has worked fairly hard on developing the corresponding rules and clarifications of the policy for the formation and utilization of reserves for possible losses on loans. Alas, it turns out that the procedure determined by the Central Bank that meets existing international standards of banking oversight and regulation does not satisfy the Ministry of Finance or the Russian Tax Service and was not registered in compliance with the established procedure in the Ministry of Justice.

Thus, the most important issue for commercial banks concerning the creation of reserves is still practically unregulated, and the reserves are still far from adequate for surmounting the nonpayment crisis that has already begun.

We may not place special hopes in the reserve deposited in the Central Bank. With today's practice this is others', that is, attracted money. In cases of crisis we need, as has already been said, our own earned reserves created out of gross profit in coordination with auditing

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firms and the Ministry of Finance. I am not calling for extremes, for the banks to declare all indebtedness hopelessness and transfer all profit into the reserve without paying taxes. Both the Ministry of Finance and the commercial banks must understand their role in society here and honestly fulfill their obligations to one another. Taxes are also something sacred in each country, because with these taxes the state fulfills the prerequisites and creates the conditions for the existence of the banks, including the organization of the corresponding oversight and monitoring of their activity. Incidentally, the Central Bank, which engages in this activity, and its leaders deserve a high rating. Oversight and monitoring are organized just as well here as they are in industry, insurance, or trade with a transition to market relations.

The problem is broader and more radical. The government, with its ministries of economics and finance and other organs, like the Central Bank, must be aware of the immense significance of the creation of a system of security for commercial bank transactions. This is a complicated system, which includes the creation of reserves, the provision of liquidity, an analysis of the economic condition of the borrowers, and many other factors. Now commercial banks are practically unprotected. And at the same time, they are constantly being "offered up" for attack without being given the possibility of creating a line of defense in the form of special reserves against questionable indebtedness out of profit before the payment of taxes. Because of this, banking in our country is becoming not simply risky, but even dangerous—not only for the bankers themselves, but also for the investors, who could easily lose their savings. It is improper that from the very first year of a bank's existence, it is fleeced with the help of taxes. A prudent manager, in turn, is concerned to accumulate reserves for purposes of further correct functioning without any special danger of bankruptcy. The failure of one bank causes a particular group of depositors to suffer, which is bad in and of itself from a social standpoint. But with the bankruptcy of many banks, the overall economic crisis in the country is exacerbated.

If we look at the prospering Western banks, we become convinced that their reserve capital is several times greater than their joint-stock capital, which, as a rule, is considerable. Banks in the West are solid because of their reserves, which they have not generously distributed to their stockholders as dividends, since they are concerned to survive during a period of possible banking crisis and to receive good dividends in the future, and also to transfer significant amounts of taxes to the state. We must have conditions favorable to the development of Russian banks. And for them themselves, economy must become a most important principle. Thus, if a Swiss peasant earns two francs, he saves up one of them for a rainy day. If a Swiss bank earns three francs in profit, it puts two of them into reserve and spends one. Reserve capital is like subcutaneous fat for an organism. For Western banking specialists, the biggest question is how Russian banks manage to survive without reserves.

The high inflation is no justification for the absence of reserves. For the banking concept of reserve is not a piggy bank where the money remains without moving. A reserve is also in continuous banking circulation until the repayment of the credit. When the credit is repaid, the reserves go into taxable bank profit. In a word, reserves for questionable debts temporarily expand the bank's capital base. They are the surrogate for their own funds until such time as the debts are written off or repaid. On the other hand, a reserve in the Central Bank not only is not working for the commercial bank for the time being, but is also being devalued because of inflation.

So we are faced with a crisis of the banking system. The banking crisis is manifested in nonpayments and failure on the part of borrowers to fulfill their obligations to the banks, and on the part of the banks—to the depositors. And perhaps it is the banks that must be first to obtain support from the state as represented by the Ministry of Finance and the Central Bank in order to emerge from the crisis, because the banks create the bases around which the entire economy revolves. We should trust the Germans, who say: "Money rules the world, and money is in the banks," keeping in mind that a considerable proportion of these funds are stored in the form of reserves put away for a "rainy day," that is, in case of the appearance of another nonpayment crisis.

*Central Bank Monopolistic Policy Criticized

954E0922A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement) in Russian 27 Apr 95 No 30, p 3

[Article by Garegin Tosunyan, first vice president of the Association of Russian Banks: "Monopolism in Decisionmaking Leads to Errors in Evaluating Their Consequences"]

[FBIS Translated Text] [begin boxed item] The Central Bank is a monopolist in deciding a whole range of key questions of monetary-credit policy. It is possible that these enormous powers are necessary; however, procedure for their use and limits of jurisdiction and control over them are absolutely absent. This state of affairs is almost more dangerous than the availability of an uncontrolled "nuclear" button in the hands of a

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minister of defense who at the same time is not restricted in regard to either the target or the procedure for its use, other than the general phrase "for the good of the Motherland." [end boxed item]

Our history knows numerous examples of authorities' adoption of decisions that were later seriously regretted, and recent years are no exception in this sense. Numerous objective reasons and explanations can be found for this, from the unprecedented rates and scale of reorganization to a not always clear concept concerning the end objective of actions being undertaken; however, not one of them is able to justify the consequences that these errors entail. Especially impressive in both the amount and scale of consequences is the list of blunders in the financial-economic sphere, nevertheless it seems that the list has a chance of being supplemented by yet another item which in destructive effect approximates the uncontrolled credit inflation and monetary exchanges reminiscent of 1991 and 1993.

The question concerns "Supplement No. 2 to the Statute on the Procedure for Forming Compulsory Reserve Funds of Commercial Banks and Credit Institutions in the Central Bank of the Russian Federation," whose appearance caused strong repercussions in the whole banking community, up to and including a forecast of mass bank bankruptcies and the collapse of the country's entire financial-economic system. Such a reaction is not surprising, inasmuch as in this case the Central Bank rather crudely and imprudently made use of the extremely powerful instrument of regulating the credit-monetary system, obviously not comprehending the full magnitude of the results of its actions.

In essence, letter of the Central Bank of the Russian Federation No. 158 of 29 March 1995, which contains "Supplement No. 2..." significantly and unjustifiably expands the range of items for reservation. Incidentally, before the appearance of the indicated document the reserve system was also far from perfection. Among others, those accounts that were subject to reserves were settlement, current, and budgetary accounts of bank clients; accounts that record the resources of clients directed at the purchase of securities, including state securities; resources subject to deposit according to letters of credit; and many other accounts that record resources available to clients and not to the bank. The aforementioned letter added other accounts as well (for example, correspondent accounts of Russian and foreign banks, budget incomes, plastic cards issued to clients, current accounts in foreign currency, unpaid transfers from abroad, letters of credit in hard currency, etc.), reserves for which to an even greater degree falls outside the scope of notions of expediency.

In analyzing the indicated changes, it is possible to determine the range of direct consequences that could have a very serious negative effect on the banking system and the general financial-economic situation in the country.

First, it is obvious that reserves according to accounts whose movement the bank cannot plan, predict, or stop could cause the bank to crash due to both a contingency and also to the ill-intentioned behavior of any of its clients. Thus, if a client transfers a large sums of monetary resources to a bank and pulls them out of the account the next day, a large average daily bank balance is formed in his account, on the calculation of which the bank will have to transfer 20 percent to the compulsory reserve fund. At the same time the bank is not able to use the resources that were in the client's account every day in order at least to make up for the reserve. In addition, even with such an opportunity, the bank could suffer serious losses in connection with the fact that the market price for short-term money can be much lower than the reserve rate (for example, at the end of March and the first part of April this rate fell regularly to a 5 percent annual level).

Second, banks that are put in a position where on the one hand management of a client's account brings substantial losses, and on the other hand this function is compulsory, will be forced either to limit the range of operations it completes, becoming a credit institution that does not administer client accounts, or significantly increase charges for client services. In the final analysis, banks' refusal to administer client accounts could lead to a crash in the settlement system and complete paralysis in the economy.

Third, in examining the problem of reserves for correspondent accounts of banks it is impossible not to note that there exists in this case, if it can be put this way, "dual reserves," inasmuch as there is money in a bank's "LORO" correspondent account that is written off from its correspondent account to the RKTs [clearing center]; that is, which has already come under the reserve system for one reason or another.

Abstracting somewhat from the results of this specific action, it is impossible not to talk about the fact that a situation has developed in Russia at the present time in which the Central Bank is a monopolist in deciding a whole range of key questions of monetary-credit policy, among which reserves are only the most glaring and pressing example. At the present moment the Bank of Russia, besides the traditional functions that are inherent in a central bank (such as issuing banknotes, regulating money circulation, credit, and hard currency exchange rates, storing official gold and

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hard currency reserves, etc.) performs the functions of bank licensing, control, regulation and supervision, and also norm creation under the law. These enormous powers might possibly be necessary, especially under conditions of radical economic reforms; however, a procedure for their use and limits of jurisdiction and control over them are absolutely absent. Such a state of affairs, which developed as a result of the imperfection of our legislation, is almost more dangerous than the availability of an uncontrolled "nuclear" button in the hands of a minister of defense who at the same time is not restricted in regard to the target, method, and procedure for its use, other than the general phrase "for the good of the Motherland," and who is not controlled by anybody.

World experience in financial regulation shows that, given the normal development of a financial regulation mechanism, we sooner or later arrive at a multisubject and legislatively controlled upper level of the credit-banking system that is directed against exclusively uncontrolled management of the national credit-banking system on the part of any one organ. The sooner we begin movement in this direction, the fewer shocks our financial system will experience in the future.

*Federal Law on Amendments, Additions to Law on Central Bank

954E0920A Moscow ROSSIYSKAYA GAZETA in Russian 4 May 95 , pp 3, 5-6

[Russian Federation Federal Law No 85-FL on Insertion of Amendments and Additions into the RSFSR Law on the Central Bank of the RSFSR (Bank of Russia), passed by the State Duma on 12 April 1995 and signed by Russian Federation President B. Yeltsin on 26 April 1995]

[FBIS Translated Text]

Article 1. Amendments and additions shall be inserted into the RSFSR Law on the Central Bank (Bank of Russia) (Records of the RSFSR Congress of People's Deputies and the RSFSR Supreme Soviet, 1990, No 27, p 356; and Records of the Russian Federation [RF] Congress of People's Deputies and the RF Supreme Soviet, 1992, No 34, p 1966), the title of which has been worded as follows:

The Federal Law on the Central Bank of the Russian Federation (Bank of Russia).

Section I. General Provisions

Article 1. The status, tasks, functions, authority and principles of organization and activities of the Central Bank of the Russian Federation (Bank of Russia) shall be defined by the RF Constitution, this federal law and other federal laws.

The site of the Bank of Russia's central organs shall be the city of Moscow.

Article 2. The Bank of Russia's charter capital and other property shall be under federal ownership. In conformity with the goals and using the procedure which have been established by this federal law, the Bank of Russia shall exercise authority with respect to the possession, use and disposition of Bank of Russia property. The removal and encumbrance of Bank of Russia property without the Bank of Russia's consent shall not be permitted.

The Bank of Russia shall cover its own expenditures using its own revenues.

The Bank of Russia shall not be registered in the tax organs.

The Bank of Russia shall be a legal person. The Bank of Russia shall have a seal depicting the RF Emblem and its own name.

The state shall not be responsible for the Bank of Russia's obligations and the Bank of Russia shall not be responsible for the state's obligations, if it has not taken such obligations upon itself or unless otherwise stipulated by federal laws.

Article 3. The basic goals of the Bank of Russia's activities shall be:

protecting the ruble and ensuring its stability, including its purchasing power and exchange rate with respect to foreign currencies;

developing and strengthening the RF's banking system;

and ensuring the clearing system's effective and uninterrupted functioning.

Deriving a profit shall not be a goal of the Bank of Russia's activities.

Article 4. The Bank of Russia shall perform the following functions:

1) it shall develop and pursue a unified national monetary policy aimed at protecting the ruble and ensuring its stability in coordination with the RF Government;

2) it shall implement exclusively the emission of cash money and shall organize its circulation;

3) it shall be the creditor of last resort for credit organizations and shall organize the refinancing system;

4) it shall establish the rules for conducting settlements in the RF;

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5) it shall establish the rules for conducting banking transactions, for accounting and for reporting for the banking system;

6) it shall implement state registration of credit organizations; and it shall issue and revoke the licenses of credit organizations and organizations which engage in auditing them;

7) it shall exercise oversight over credit organizations' activities;

8) it shall register the emission of securities by credit organizations in accordance with federal laws;

9) it shall conduct, independently or on the RF Government's instructions, all the types of banking transactions necessary for the performance of the Bank of Russia's basic tasks;

10) it shall implement currency regulation, including transactions involving the buying and selling of foreign currency; and it shall determine the procedure for conducting settlements with foreign states;

11) it shall organize and exercise currency control, both directly and also through authorized banks, in accordance with RF legislation;

12) it shall participate in the development of the forecast of the RF's balance of payments and shall organize the compilation of the RF's balance-of-payments report;

13) it shall conduct an analysis and make a forecast of the state of the economy of the RF as a whole and by regions, first and foremost, the monetary, the currency-and-financial and the price relations, for the purpose of implementing the stated functions; and it shall publish the corresponding materials and statistical data;

14) and it shall perform other functions in accordance with federal laws.

Article 5. The Bank of Russia shall be accountable to the RF Federal Assembly's State Duma. The Bank of Russia's accountability to the State Duma shall mean:

the State Duma's appointment to or removal from office, on the RF President's recommendation, of the Bank of Russia's chairman;

the State Duma's appointment to or removal from office of the members of the Bank of Russia's Board of Directors (hereinafter, the Board of Directors);

the Bank of Russia's submission to the State Duma for examination of an annual report, as well as audit findings;

the State Duma's determination of the auditing firm for the conducting of the Bank of Russia's audit examination;

the holding of parliamentary hearings on the Bank of Russia's activities with the participation of its representatives;

and reports from the Bank of Russia's chairman to the State Duma on the Bank of Russia's activities (twice a year — during the submission of the annual report and of the unified national monetary policy's basic directions.

The Bank of Russia, within the limits of the authority granted to it by the RF Constitution and federal laws, shall be independent in its activities. Federal organs of state authority, RF components' organs of state authority and local self-government organs shall not have the right to interfere in the Bank of Russia's activities with respect to the implementation of its legislatively secured functions and authority or to adopt decisions which contradict this federal law.

The Bank of Russia shall submit information to the State Duma and the RF President using the procedure established by federal laws.

In the event of interference in its activities, the Bank of Russia shall inform the State Duma and the RF President about this.

The Bank of Russia shall have the right to turn to the courts with lawsuits about declaring invalid the legal acts of federal organs of state authority, of RF components' organs of state authority and of local self-government organs.

Article 6. The Bank of Russia, on matters relegated to its jurisdiction by this federal law and other federal laws, shall issue standard acts which shall be binding on federal organs of state authority, RF components' organs of state authority, local self-government organs and all legal and natural persons.

The Bank of Russia's standard acts may not contradict federal laws.

The Bank of Russia's standard acts shall go into effect as of the day of their official publication in the Bank of Russia's official publication (VESTNIK BANKA ROSSII [Journal of the Bank of Russia]), except in instances established by the Board of Directors. The Bank of Russia's standard acts shall not be retroactive.

Standard acts of the Bank of Russia, which directly touch upon the rights, freedom or responsibilities of citizens, must be registered in the RF Ministry of Justice using the procedure established for the registration of acts of federal ministries and departments.

The Bank of Russia's standard acts shall be sent in their entirety in the necessary instances to all registered credit organizations by mail or other means of communication.

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The Bank of Russia's standard acts may be appealed using the established legal procedure.

Drafts of federal laws, as well as of standard acts of federal organs of executive authority, which concern the Bank of Russia's performance of its functions, shall be sent to the Bank of Russia for its consideration.

Article 7. The Bank of Russia may not participate in capital credit organizations, unless otherwise stipulated by federal law.

The Bank of Russia may not participate in other capital organizations, if they do not support the activities of the Bank of Russia and its institutions, organizations and employees, except in instances established by federal laws.

Article 8. The Bank of Russia may participate in the capital and activities of international organizations which are engaged in the development of cooperation in the monetary, currency and banking spheres, including between the central banks of foreign states.

The Bank of Russia's mutual relations with foreign states' credit organizations shall be conducted in accordance with the RF's international agreements and federal laws, as well as interbank agreements.

Section II. The Bank of Russia's Capital

Article 9. The Bank of Russia shall have charter capital in the amount of 3 billion rubles.

Article 10. The Bank of Russia shall, using its own profits, create reserves and funds for various purposes in the amounts necessary for the implementation of their own functions, as well as, irrespective of profits and losses, a revaluation fund for transactions involving currency assets.

The procedure for the formation and use of the reserves and funds shall be determined by the Board of Directors.

Section III. The Bank of Russia's Management Organs

Article 11. The Bank of Russia's highest organ shall be the Board of Directors — a collective organ which shall determine the basic directions of the Bank of Russia's activities and shall carry out the guidance and management of the Bank of Russia.

The Board of Directors shall include the Chairman of the Bank of Russia and 12 board members.

The Board of Directors' members shall work on a permanent basis in the Bank of Russia.

Article 12. The Bank of Russia's chairman shall be appointed to the position by the State Duma for a term of 4 years by a majority vote of the total number of deputies.

A nomination for the position of Chairman of the Bank of Russia shall be submitted by the RF President no later than 3 months prior to the expiration of the term of office of the Bank of Russia's chairman.

In the event of the early removal from office of the Bank of Russia's chairman, the RF President shall submit a nomination for this position within 2 weeks from the moment of removal.

In the event of the rejection of a nomination proposed for the position of Chairman of the Bank of Russia, the RF President shall submit a new nomination within 2 weeks. A single nomination may not be submitted more than twice.

The one and the same person may not hold the position of Chairman of the Bank of Russia for more than three terms in succession.

The State Duma shall have the right to remove the Bank of Russia's chairman from office on the recommendation of the RF President.

The Bank of Russia's chairman may be removed from office only in the following instances:

1) the expiration of the term of office;

2) the inability to perform official duties, which shall be confirmed by the findings of a state medical commission;

3) a personal announcement of retirement;

4) the commission of a criminally punishable act, which shall be established by a lawfully effective court sentence;

5) or a violation of federal laws which regulate matters associated with the Bank of Russia's activities.

Article 13. The Board of Directors' members shall be appointed to their positions for a term of 4 years by the State Duma on the recommendation of the Bank of Russia's chairman, which shall be coordinated with the RF President.

The Board of Directors' members shall be removed from office:

upon the expiration of the term of office stated in this article — by the Bank of Russia's chairman;

or prior to the expiration of the term of office stated in this article — by the State Duma on the recommendation of the Bank of Russia's chairman.

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Article 14. The Bank of Russia's chairman shall preside at Board of Directors meetings or, in the event of his absence, the person acting for him from among the Board of Directors' members shall preside.

The Board of Directors' decisions shall be adopted by a majority vote of the number of board members present with a quorum of seven persons and the obligatory presence of the Bank of Russia's chairman or the person acting for him. The minutes of a Board of Directors meeting shall be signed by the presiding officer and one of the board members. When the Board of Directors adopts decisions on matters of monetary policy, the opinion of the minority board members shall be entered into the minutes at their request.

The Board of Directors may invite the heads of the Bank of Russia's territorial institutions to participate in meetings.

Article 15. The Board of Directors shall meet no less often than once a month.

Board of Directors meetings shall be set by the Bank of Russia's chairman or the person acting for him or at the request of no fewer than three board members.

The Board of Directors' members shall be informed in a timely fashion about the setting of a board meeting.

Article 16. The Board of Directors shall perform the following functions:

1) it shall develop and ensure the fulfillment of the unified national monetary policy's basic directions in cooperation with the RF Government;

2) it shall approve the Bank of Russia's annual report and shall submit it to the State Duma;

3) it shall examine and approve the estimate of the Bank of Russia's expenditures for the next year by no later than 31 December of the preceding year, as well as the expenditures made which were not foreseen in the estimate;

4) it shall determine the Bank of Russia's structure;

5) it shall establish the forms and amounts of the salaries of the Bank of Russia's chairman, the board members, the Bank of Russia's deputy chairmen and other Bank of Russia employees;

6) it shall decide:

on the creation and elimination of the Bank of Russia's institutions and organizations;

on the establishment of binding standards for credit organizations in accordance with Article 61 of this federal law;

on the amount of the reserve requirements;

on a change in the Bank of Russia's interest rates;

on the determination of the limits for transactions in the open market;

on participation in international organizations;

on participation in capital organizations which support the activities of the Bank of Russia and its institutions, organizations and employees;

on the purchase and sale of real estate in order to support the activities of the Bank of Russia and its institutions, organizations and employees;

on the use of direct quantitative restrictions;

on the issuing and withdrawal from circulation of banknotes and coins and on the total amount of cash money issued;

and on the procedure for the formation of reserves by credit organizations;

7) it shall submit to the State Duma proposals on a change in the Bank of Russia's charter capital;

8) it shall approve the Board of Directors' operating procedure;

9) it shall appoint the Bank of Russia's main auditor;

10) it shall approve the Bank of Russia's structure, the regulations on the Bank of Russia's subdivisions and institutions, the charters of Bank of Russia organizations and the procedure for appointing the heads of the Bank of Russia's subdivisions, institutions and organizations;

11) it shall determine the conditions for admitting foreign capital into the RF's banking system in accordance with federal laws;

12) it shall perform other functions relegated by this federal law to the jurisdiction of the Bank of Russia's Board of Directors.

Article 17. The Board of Directors' members may not be State Duma deputies and Federation Council members (deputies), deputies of RF components' legislative (representative) organs and of local self-government organs, as well as members of the RF Government.

The relinquishing of deputy powers or the retirement of a member of the RF Government should be carried out over the course of a month from the moment of appointment to the position of a member of the Board of Directors, after which the newly appointed board member shall begin to perform his official duties.

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The Board of Directors' members may not be in political parties or hold positions in socio-political and religious organizations.

The restrictions established by Article 90 of this federal law shall apply to the Board of Directors' members.

Article 18. The Bank of Russia's chairman shall:

1) act on behalf of the Bank of Russia and routinely represent its interests in relations with organs of state authority, credit organizations, organizations of foreign states, international organizations and other institutions and organizations;

2) preside at Board of Directors meetings. In the event of a tie vote, the Bank of Russia's chairman shall cast the deciding vote;

3) sign the Bank of Russia's standard acts, the Board of Directors' decisions, the minutes of Board of Directors meetings and agreements concluded by the Bank of Russia.

4) appoint to and remove from their positions the Bank of Russia's deputy chairmen and assign duties among them;

5) sign orders and give instructions which are binding on all employees of the Bank of Russia and of its enterprises, institutions and organizations;

6) bear full responsibility for the Bank of Russia's activities;

7) and ensure the implementation of the Bank of Russia's functions in accordance with this federal law.

Section IV. The Bank of Russia's Mutual Relations with Organs of State Authority and Local Self-Government Organs

Article 19. In order to implement the functions entrusted to it, the Bank of Russia shall participate in the development of the RF Government's economic policy. The Bank of Russia's chairman or, on his behalf, one of his deputies shall participate in RF Government meetings.

The RF Minister of Finance and the RF Minister of Economics or, on their behalf, one of their respective deputies shall participate in Board of Directors meetings in an advisory capacity.

The Bank of Russia and the RF Government shall inform one another about proposed actions which are of nationwide importance, shall coordinate their own policies and shall hold regular consultations.

The Bank of Russia shall consult with the RF Ministry of Finance on matters concerning the scheduling of the issuing of state securities and the repayment of the national debt with due consideration of their impact on the state of the banking system and the unified national monetary policy's priorities.

Article 20. In order to improve the RF's monetary system, a National Banking Council shall be established under the Bank of Russia, which shall consist of representatives from the houses of the RF Federal Assembly, the RF President, the RF Government, the Bank of Russia and credit organizations, as well as experts.

The Bank of Russia's chairman shall be the Chairman of the National Banking Council. The National Banking Council shall include two representatives each from the houses of the RF Federal Assembly and one representative from the RF President and the RF Government, as well as the RF Minister of Finance and the RF Minister of Economics. The National Banking Council's remaining members shall be appointed by the State Duma on the recommendation of the Bank of Russia's chairman. The National Banking Council's membership shall not exceed 15 persons.

National Banking Council meetings shall be held no less often than once in 3 months.

Article 21. The National Banking Council shall perform the following functions:

it shall examine the concept of perfecting the RF's banking system;

it shall examine drafts of the unified national monetary policy's basic directions and the currency regulation and currency control policies, draw conclusions about them and analyze the results of their fulfillment;

it shall conduct an examination of drafts of legislative and other standard acts in the area of banking;

it shall examine the most important matters of the regulation of credit organizations' activities;

and it shall participate in the development of the basic principles for organizing the clearing system in the RF.

Article 22. The Bank of Russia shall not have the right to grant credits to the RF Government to fund a budget deficit or to purchase state securities during their initial placement, except in those instances when this shall be stipulated by the federal law on the federal budget.

The Bank of Russia shall not have the right to grant credits to fund budget deficits of RF components, of local budgets and of budgets of state extra-budgetary funds.

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Article 23. The assets of the federal budget and state extra-budgetary funds shall be kept in the Bank of Russia, unless otherwise stipulated by federal laws.

The Bank of Russia, without levying a commission fee, shall conduct transactions involving the federal budget and the state extra-budgetary funds, the budgets of RF components and local budgets, as well as transactions involving servicing the national debt and transactions involving the RF's gold and currency reserves.

The Bank of Russia's authority with respect to servicing the national debt shall be defined by federal laws.

The Bank of Russia and the RF Ministry of Finance, in the necessary instances, shall conclude agreements on the conducting of the stated transactions on the instructions of the RF Government.

Section V. The Bank of Russia's Reporting

Article 24. The Bank of Russia's reporting period shall be established as running from 1 January through 31 December, inclusively.

The structure of the Bank of Russia's balance sheet shall be established by the Board of Directors.

Article 25. Annually, by no later than 15 May, the Bank of Russia shall submit to the State Duma an annual report approved by the Board of Directors.

The Bank of Russia's annual report shall include:

1) a report on the Bank of Russia's activities and an analysis of the state of the RF's economy, including an analysis of the monetary turnover, credit, the banking system, the currency situation and the RF's balance of payments, as well as a list of measures carried out by the Bank of Russia with respect to the unified national monetary policy;

2) an annual balance sheet, a profit-and-loss statement and the distribution of profits;

3) a procedure for the formation of and directions for the use of the Bank of Russia's reserves and funds;

4) and an auditor's report on the Bank of Russia's annual report.

The State Duma shall send the Bank of Russia's annual report to the RF President, as well as to the RF Government for final examination.

The State Duma shall examine the Bank of Russia's annual report prior to 1 July of the year following the report year.

The State Duma shall adopt a decision based on the results of the examination of the Bank of Russia's annual report.

The annual report shall be published by no later than 15 July of the year following the report year.

The Bank of Russia shall publish monthly its balance sheet, data on the monetary turnover, including the dynamics and structure of the money supply, and summarized data on its own transactions.

Article 26. The Bank of Russia's profits, after they have been directed into the reserves and funds using the procedure established by the Board of Directors, shall be transferred to federal budget revenue.

The transfer of a reporting year's profits to the federal budget prior to the Board of Directors' approval of the Bank of Russia's annual report shall not be permitted.

The Bank of Russia and its institutions shall be exempted from the payment of all taxes, fees, duties and other payments in the RF in accordance with the RF legislative acts on taxes.

Section VI. The Organization of the Cash Monetary Turnover

Article 27. The ruble shall be the RF's official monetary unit (currency). One ruble shall consist of 100 kopecks.

The introduction into the RF of other monetary units and the issuing of monetary substitutes shall be prohibited.

Article 28. An official correlation between the ruble and gold or other precious metals shall not be established.

Article 29. The emission of cash money, the organization of its circulation and its withdrawal from circulation in the RF shall be implemented exclusively by the Bank of Russia.

Bank of Russia banknotes and coins shall be the sole legal tender in the RF. Their counterfeiting and illegal manufacture shall be prosecuted according to the law.

Article 30. The banknotes and coins shall be absolute obligations of the Bank of Russia and shall be backed by all its assets.

It shall be obligatory for Bank of Russia banknotes and coins to be accepted at face value for all types of payments, for entry into accounts, for deposits and for remittance throughout the entire RF.

Article 31. Bank of Russia banknotes and coins may not be declared invalid (having lost validity as legal tender), if a sufficiently lengthy period for their exchange for new-series banknotes and coins has not been established. No kinds of restrictions on amounts and subjects of the exchange shall be permitted.

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When Bank of Russia banknotes and coins are exchanged for new-series currency, the period for withdrawing the banknotes and coins from circulation may not be less than 1 year, but it shall not exceed 5 years.

Article 32. The Bank of Russia shall exchange without restrictions worn-out and damaged banknotes in accordance with the rules established by it.

Article 33. The Board of Directors shall decide on the placement into circulation of new banknotes and coins and on the withdrawal of old ones and it shall approve the new currency's face values and designs. A description of the new currency shall be published in the mass media.

The decision on these matters shall be sent to the RF Government using the procedure for advance notification.

Article 34. In order to organize the cash monetary turnover in the RF, the Bank of Russia shall be charged with the following functions:

the planning and organization of the production, shipping and storage of banknotes and coins and the creation of their reserve stocks;

the establishment of the rules for the storage, shipping and delivery of cash money for credit organizations;

the establishment of the indications of the currency's serviceability and of the procedure for replacing damaged banknotes and coins, as well as of that for their destruction;

and the determination of the procedure for the conducting of cash transactions by credit organizations.

Section VII. The Monetary Policy

Article 35. The basic instruments and methods of the Bank of Russia's monetary policy shall be:

1) the interest rates for the Bank of Russia's transactions;

2) the standards for the required reserves to be on deposit in the Bank of Russia (the reserve requirements);

3) transactions in the open market;

4) the refinancing of banks;

5) currency regulation;

6) the establishment of guidelines for the growth of the money supply;

7) and direct quantitative restrictions.

Article 36. The Bank of Russia shall regulate the total amount of credits issued by it in accordance with the adopted guidelines of the unified national monetary policy.

Article 37. The Bank of Russia may establish a single interest rate or several for various types of transactions or pursue an interest policy without fixing an interest rate.

The Bank of Russia's interest rates shall be the minimum rates at which the Bank of Russia conducts its own transactions.

The Bank of Russia shall use the interest policy to influence market interest rates in order to strengthen the ruble.

Article 38. The size of the obligatory reserves as a percentage against a credit organization's obligations, as well as the procedure for holding them on deposit in the Bank of Russia, shall be determined by the Board of Directors.

The standards for the obligatory reserves may not exceed 20 percent of a credit organization's obligations and may be differentiated for various credit organizations.

The standards for the obligatory reserves may not be changed at any one time by more than 5 points.

When there is a violation of the standards for the obligatory reserves, the Bank of Russia shall have the right to exact from a credit organization, without dispute, the amount of the undeposited funds, as well as a fine in an amount established by it, but not more than double the refinancing rate.

When a license to conduct banking transactions is recalled, the funds deposited in the Bank of Russia shall be used to pay off the credit organization's obligations to depositors and creditors.

Article 39. Transactions in the open market shall mean the Bank of Russia's buying and selling of treasury bills, state bonds and other state securities and short-term transactions involving securities with the conducting of a reverse transaction later.

The limit for transactions in the open market shall be approved by the Board of Directors.

Article 40. Refinancing shall mean the Bank of Russia's extension of credit to banks, including the recording and registration of notes.

The forms, procedure and conditions for refinancing shall be established by the Bank of Russia.

Article 41. The Bank of Russia's currency interventions shall mean the Bank of Russia's buying and selling

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of foreign currency in the currency market in order to influence the ruble's exchange rate and the total monetary supply and demand.

Article 42. The Bank of Russia's direct quantitative restrictions shall mean the establishment of limits on the refinancing of banks and the conducting of individual banking transactions by credit organizations.

The Bank of Russia shall have the right to adopt direct quantitative restrictions in exceptional instances for the purpose of pursuing the unified national monetary policy only after consultations with the RF Government.

Article 43. The Bank of Russia may establish guidelines for the growth of one indicator or several of the money supply, proceeding on the basis of the unified national monetary policy's basic directions.

Article 44. The Bank of Russia shall submit to the State Duma annually, by no later than 1 December, the unified national monetary policy's basic directions for the upcoming year.

The draft of the unified national monetary policy's basic directions shall be submitted in advance to the RF President and the RF Government.

The unified national monetary policy's basic directions for the upcoming year shall include the following items:

an analysis of the state of and the forecast for the development of the RF's economy;

and the unified national monetary policy's basic guidelines, parameters and instruments.

The State Duma shall examine the unified national monetary policy's basic directions for the upcoming year and shall adopt a decision.

Section VIII. The Bank of Russia's Transactions

Article 45. The Bank of Russia shall have the right to conduct the following transactions with Russian and foreign credit organizations and the RF Government in order to achieve the goals set for it by this federal law:

1) to grant credits for a period of not more than 1 year, which are secured by securities and other assets, unless otherwise stipulated by the federal law on the federal budget;

2) to buy and sell checks, ordinary notes and bills of exchange, which are, as a rule, of a commodity origin, with repayment periods of no more than 6 months;

3) to buy and sell state securities in the open market;

4) to buy and sell bonds, certificates of deposit and other securities with repayment periods of no more than 1 year;

5) to buy and sell foreign currency, as well as payment documents and bonds in a foreign currency, which have been issued by Russian and foreign credit organizations;

6) to buy, store and sell precious metals and other types of currency assets;

7) to conduct clearing, cash and deposit transactions and to accept for storage and management securities and other valuables;

8) to issue guarantees and warranties;

9) to conduct transactions involving financial instruments used to manage financial risks;

10) to open accounts in Russian and foreign credit organizations in the RF and in foreign states;

11) to issue checks and notes in any currency;

12) and to conduct other banking transactions on its own behalf, unless this has been prohibited by law.

The Bank of Russia shall have the right to conduct transactions on a commission basis, except in instances stipulated by federal laws.

Article 46. The collateral for Bank of Russia credits may be:

gold and other precious metals in various forms;

foreign currency;

notes in Russian and foreign currencies with repayment periods of up to 6 months;

and state securities.

The list of notes and state securities suitable as collateral for Bank of Russia credits shall be determined by the Board of Directors.

In instances established by the Board of Directors, other valuables, as well as guarantees and warranties, may serve as collateral.

Article 47. The Bank of Russia may conduct banking transactions to serve representative and executive organs of state authority, local self-government organs, their institutions and organizations, state extra-budgetary funds, military units, military personnel, and Bank of Russia employees, as well as other persons in instances stipulated by federal laws.

The Bank of Russia shall also have the right to serve clients which are not credit organizations, in regions where credit organizations are lacking.

Article 48. The Bank of Russia shall not have the right:

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1) to conduct banking transactions with legal persons not licensed to conduct banking transactions and with natural persons, except in the instances stipulated in Article 47 of this federal law;

2) to acquire shares (stock) of credit and other organizations, except in the instances stipulated by Articles 7 and 8 of this federal law;

3) to conduct transactions involving real estate, except in instances associated with supporting the activities of the Bank of Russia and its enterprises, institutions and organizations;

4) to engage in trade and production activities, except in the instances stipulated by this federal law;

5) and to extend granted credits. An exception may be made by a Board of Directors' decision.

Article 49. The Bank of Russia shall be held accountable using the procedure established by federal laws.

In regular court and a court of arbitration, the Bank of Russia's interests may be represented by the heads of its territorial institutions and by other Bank of Russia officials who obtain the appropriate authorization using the established procedure.

Section IX. International and Foreign Economic Activities

Article 50. The Bank of Russia shall represent RF interests in mutual relations with the central banks of foreign states, as well as in international banks and other international currency and financial organizations.

Article 51. The Bank of Russia shall issue permits for the establishment of banks with the participation of foreign capital and branches of foreign banks and shall also implement the accreditation of the offices of foreign states' credit organizations in the RF in accordance with the procedure established by federal laws.

An increase in the charter capital of a credit organization through the use of non-residents' assets shall be regulated by federal laws.

Article 52. The Bank of Russia shall establish and publish official quotations for foreign currencies in relation to the ruble.

Article 53. The Bank of Russia shall be the organ of state currency regulation and currency control and shall perform this function in accordance with the RF Law on Currency Regulation and Currency and other federal laws.

Article 54. In order to perform its functions, the Bank of Russia may open offices in foreign states.

Section X. Banking Regulation and Oversight

Article 55. The Bank of Russia shall be the organ of banking regulation for and oversight over the activities of credit organizations.

The Bank of Russia shall exercise constant oversight over credit organization's observance of banking legislation and the Bank of Russia's standard acts and, in particular, the obligatory standards established by them.

The main goal of the banking regulation and oversight shall be supporting the banking system's stability and protecting the interests of depositors and creditors. The Bank of Russia shall not interfere in the credit organizations' operational activities, except in instances stipulated by federal laws.

The Bank of Russia's oversight and regulatory functions established by this federal law may be implemented by it directly or through a banking oversight agency established under it. The decision on this agency's establishment shall be made by the Board of Directors.

Article 56. The Bank of Russia shall establish the rules, binding on credit organizations, for the conducting of banking transactions, for bookkeeping and for the compilation and submission of accounting and statistical reports.

In order to implement its functions, the Bank of Russia, in accordance with the list established by the Board of Directors, shall have the right to request and to receive from credit organizations necessary information on their activities and to require explanations with respect to the obtained information.

In order to prepare banking and financial statistics and an analysis of the economic situation, the Bank of Russia shall have the right to request and to receive necessary information from federal organs of executive authority.

The data received from the credit organizations on specific transactions shall not be subject to disclosure without the consent of the corresponding credit organization, except in instances stipulated by federal laws.

The Bank of Russia shall publish summary statistical and analytical information on the RF's banking system.

The provisions of this article shall apply to information collected and transferred by the Bank of Russia on the instructions of the RF Government to international organizations.

Article 57. The Bank of Russia shall not have the right to require from credit organizations the performance of functions not customary for them, including controlling

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the payout of the consumption fund (wage fund) of client legal persons.

Article 58. The Bank of Russia shall register credit organizations in the State Credit Organization Registry, shall issue to credit organizations licenses for the conducting of banking transactions and shall revoke them.

Article 59. The Bank of Russia shall have the right, in accordance with federal laws, to set the qualification requirements for the heads of executive organs and also for the chief accountant of a credit organization.

Article 60. The acquisition, as a result of one or several deals by a single legal or natural person or by a group of legal and (or) natural persons, associated with one another by an agreement, or by a group of legal persons which have a subsidiary or dependent relationship to one another, of more than 5 percent of a credit organization's shares (stock) shall require notification to the Bank of Russia, while the acquisition of more than 20 percent shall require the Bank of Russia's advance consent.

The Bank of Russia, no later than 30 days from the moment of the receipt of an application, shall inform the applicant in writing about its decision — approval or rejection. A rejection should have grounds. In the event that the Bank of Russia fails to report on the decision made over the course of the stated period, the deal to buy or sell a credit organization's shares (stock) shall be considered to be permitted.

The Bank of Russia, within the framework of the performance of its oversight functions, shall have the right to request and to receive information on the financial status and business reputation of a credit organization's participants (stockholders) in the event they acquire more than 20 percent of a credit organization's shares (stock).

The Bank of Russia shall have the right to refuse to give consent to the completion of a deal to buy or sell more than 20 percent of a credit organization's shares (stock) when it is established that the financial status of the shares' (stock's) purchasers is unsatisfactory.

The acquisition of a credit organization's shares (stock) through the use of non-residents' assets shall be regulated by federal laws.

Article 61. In order to ensure credit organizations' stability, the Bank of Russia may establish standards which shall be binding on them:

1) the minimum amount of charter capital for newly created credit organizations and the minimum amount of internal resources (capital) for operating credit organizations;

2) the maximum amount for the non-monetary portion of the charter capital;

3) the maximum amount of risk for a single borrower or a group of associated borrowers;

4) the maximum amount of large credit risks;

5) the maximum amount of risk for a single creditor (investor);

6) a credit organization's liquidity standards;

7) capital sufficiency standards;

8) the maximum amount for attracted monetary investments (deposits) from the public;

9) the amounts of currency, interest and other risks;

10) the minimum amount of reserves to be established for high-risk assets;

11) standards for using banks' internal resources to acquire shares (stock) of other legal persons;

12) and the maximum amount of credits, guarantees and warranties granted by a bank to its own participants (stockholders).

Article 62. The minimum amount of internal resources (capital) shall be established as the total of a credit organization's charter capital, funds and undistributed profits.

The Bank of Russia shall officially announce a change in the minimum amount for internal resources (capital) no later than 3 years prior to the moment of its introduction.

Article 63. The maximum amount of risk for a single borrower or a group of associated borrowers with a dependent relationship to one another or with a parent-subsidiary relationship shall be established as a percentage against a credit organization's internal resources.

When the amount of risk is being determined, the entire amount of a credit organization's credits to a given borrower or to a group of associated borrowers shall be taken into consideration, as well as guarantees and warranties granted by a credit organization to a borrower or a group of associated borrowers.

Article 64. The maximum amount of large credit risks shall be established as a percentage correlation between the total amount of the large risks and a credit organization's internal resources.

A large credit risk shall be when the amount of credits, guarantees and warranties for a single client comes to more than than 5 percent of a credit organization's internal resources.

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The maximum amount of large credit risks may not exceed 25 percent of a credit organization's internal resources.

The Bank of Russia shall have the right to keep a list of credit organizations' large credit risks.

Article 65. The maximum amount of risk for a single creditor (investor) of a credit organization shall be established as a percentage correlation of the amount of the investment or obtained credit, guarantees and warranties, the account balances of a single creditor or creditors (investors) associated with one another and a credit organization's internal resources.

Article 66. A credit organization's liquidity standards shall be defined as:

the correlation between its assets and liabilities with due consideration of the time frames, amounts and types of assets and liabilities and other factors:

and the correlation of its liquid assets (cash, demand receivables, short-term securities and other easily-sold assets) and the total assets.

Article 67. The capital sufficiency standards shall be determined as the maximum correlation of the total amount of a credit organization's internal resources and the total of its assets, weighted by the risk level.

Article 68. The maximum amount of attracted monetary investments (deposits) from citizens shall be determined as the maximum correlation of the total amount of monetary investments (deposits) from citizens and the amount of a bank's internal resources (capital).

Article 69. The standards for using a credit organization's internal resources to acquire shares (stock) of other legal persons shall be established as a percentage correlation of the amounts of invested and internal resources of a credit organization.

The amount of the standard for the use of internal resources to acquire shares (stock) may not exceed 25 percent of a credit organization's internal resources.

Article 70. The Bank of Russia shall regulate the amounts and accounting procedure for credit organizations' open positions for currency, interest and other financial risks.

Article 71. The Bank of Russia shall determine the procedure for the formation of and the amount of pretax reserves (funds) of credit organizations for possible losses on loans, to cover currency, interest and other financial risks and for insuring citizens' investments in accordance with federal laws.

Article 72. The maximum amount of credits, guarantees and warranties granted by a bank to its own participants (stockholders) shall be determined as a percentage of the bank's internal resources.

The stated standard may not exceed 20 percent.

Article 73. The Bank of Russia shall establish the methods for determing the internal resources, assets and liabilities and the risk amounts for assets for each of the standards with due consideration of international standards and consultations with banks, banking associations and unions.

The Bank of Russia shall have the right to establish differentiated standards and methods for their calculation by the types of banks and other credit organizations.

The Bank of Russia shall officially announce an impending change in the standards and in the methods for their calculation no later than 1 month prior to their implementation.

Article 74. In order to perform its functions in the area of banking oversight and regulation, the Bank of Russia shall conduct examinations of credit organizations and their branches, shall send them binding instructions about the elimination of violations uncovered in their activities and shall apply the penalties stipulated by this federal law with respect to the violators.

The examinations may be performed by Bank of Russia representatives empowered by the Board of Directors and, on its instructions, by auditing firms.

The Bank of Russia representatives empowered by the Board of Directors shall have the right to obtain and to examine reports and other documents of credit organizations and, when necessary, to make copies of the corresponding documents.

The procedure for conducting the examinations of credit organizations, including the determination of the credit organizations' duty to assist in the conducting of the examinations, shall be determined by the Board of Directors.

Article 75. In the event that a credit organization violates federal laws and standard acts and instructions of the Bank of Russia, fails to provide information or provides incomplete or unreliable information, the Bank of Russia shall have the right to demand from the credit organization the elimination of the uncovered violations, to impose a fine in an amount of up to one-tenth of one percent of the amount of the minimum charter capital or to restrict the conducting of individual transactions for a period of up to 6 months.

In the event of the non-fulfillment of the instructions about the elimination of violations within the time frame established by the Bank of Russia, as well as in the

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event that these violations or transactions carried out by the credit organization have created a real threat to the interests of creditors (investors), the Bank of Russia shall have the right:

1) to collect from the credit organization a fine of up to 1 percent of the amount of paid-in charter capital, but not more than 1 percent of the minimum amount of charter capital;

2) to demand from the credit organization:

a) the implementation of measures for the credit organization's financial improvement, including changes in the structure of assets;

b) the replacement of the credit organization's leaders;

c) and the reorganization of the credit organization;

3) to change the binding standards for the credit organization for a period of up to 6 months;

4) to impose a ban on the credit organization's conducting of individual banking transactions stipulated by the issued license for a period of up to 1 year and also on the opening of branches for a period of up to 1 year;

5) to appoint a temporary administration to manage the credit organization for a period of up to 18 months;

6) and to revoke the license for the conducting of banking transactions using the procedure stipulated by federal laws.

Article 76. The Bank of Russia shall implement an analysis of the credit organizations' activities for the purpose of uncovering situations which threaten the lawful interests of creditors (investors) and the stability of the banking system as a whole.

In the event of the emergence of such situations, the Bank of Russia shall have the right to adopt the measures stipulated by Article 75 of this federal law and also, by a decision of the Board of Directors, to implement measures for the credit organizations' financial improvement.

Section XI. Mutual Relations With Credit Organizations

Article 77. The Bank of Russia shall interact with credit organizations and their associations and unions, shall hold consultations with them before making the most important standard-related decisions, shall present necessary explanations and shall examine proposals on matters related to the regulation of banking activities.

Article 78. For the purpose of interacting with the credit organizations, the Bank of Russia shall have the right to create, with the assistance of representatives of the credit organizations, public committees and working groups to study individual matters of the banking business.

Article 79. The Bank of Russia shall not be responsible for credit organizations' obligations, except in instances when the Bank of Russia takes such obligations upon itself, and credit organizations shall not be responsible for Bank of Russia obligations, except in instances when the credit organizations take such obligations upon themselves.

Section XII. The Organization of Noncash Settlements

Article 80. The Bank of Russia shall be the organ which coordinates, regulates and licenses the organization of settlement systems, including clearing ones, in the RF.

The Bank of Russia shall establish the rules, forms, time frames and standards for the implementation of noncash settlements.

The general time frame for noncash settlements should not exceed 2 working days within the boundaries of an RF component and 5 working days within the boundaries of the RF.

Article 81. The Bank of Russia shall conduct interbank settlements through its own institutions.

Article 82. Foreign currency as a means of payment during the conducting of noncash settlements for commodities and services may be used only in instances established by federal laws.

Section XIII. The Principles of the Bank of Russia's Organization

Article 83. The Bank of Russia shall form a unified centralized system with a vertical management structure.

The Bank of Russia's system shall include a central staff, territorial institutions, clearing centers, computer centers, field institutions, educational institutions, and other enterprises, institutions and organizations, including security subdivisions, necessary for the implementation of the Bank of Russia's activities.

The republics' national banks shall be territorial institutions of the Bank of Russia.

Article 84. The Bank of Russia's territorial institutions shall not have the status of a legal person and shall not have the right to adopt decisions of a standard-related nature nor to issue guarantees and warranties, notes and other obligations without the Board of Directors' permission.

The tasks and functions of the Bank of Russia's territorial institutions shall be determined by the Statute on

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Territorial Institutions of the Bank of Russia, approved by the Board of Directors.

Article 85. Territorial institutions of the Bank of Russia may be established for economic regions which join the territories of several RF components by a decision of the Board of Directors.

Article 86. Field institutions of the Bank of Russia shall conduct banking transactions in accordance with this federal law, other federal laws and also standard acts of the Bank of Russia.

The Bank of Russia's field institutions shall be military institutions and shall be guided in their activities by military regulations and also the Statute on Field Institutions of the Bank of Russia, approved by a joint decision of the Bank of Russia and the RF Ministry of Defense.

The field institutions are intended to provide banking services for military units, institutions and organizations of the RF Ministry of Defense, as well as other state organs and legal persons which ensure the security of the RF and natural persons living on the premises of installations served by the field institutions in those instances when the establishment and functioning of Bank of Russia territorial institutions are impossible.

Article 87. The Bank of Russia may be eliminated only on the basis of the passage of a corresponding federal law.

A law on the Bank of Russia's elimination shall also determine the procedure for using its property.

Section XIV. Bank of Russia Employees

Article 88. The terms of the hiring, firing, wages, official duties and rights and the system for disciplinary punishments for Bank of Russia employees shall be determined by the Board of Directors in accordance with federal laws.

Article 89. The Board of Directors shall establish a pension fund for additional pension support of Bank of Russia employees and shall also organize life and medical insurance for the employees.

Article 90. Bank of Russia employees, according to the list of duties, approved by the Board of Directors:

shall not have the right to work at more than one job at a time nor on the basis of a contract agreement (except for teaching and research activities);

shall not have the right to hold positions in credit and other organizations;

and shall be obligated to inform the Board of Directors in writing within a 10-day period upon the acquisition of shares (stock) of credit organizations.

Article 91. Bank of Russia employees who hold positions on the list approved by the Board of Directors may obtain credits for personal needs only in the Bank of Russia.

Article 92. Bank of Russia employees shall not have the right to divulge official information about the Bank of Russia's activities without the Board of Directors' permission.

Section XV. The Audit of the Bank of Russia

Article 93. The State Duma, by no later than 1 November of the reporting year, shall adopt a decision on the audit of the Bank of Russia and shall determine the auditing firm, which shall have no fewer than 10 years of work experience, for the examination of the Bank of Russia's annual report and the submission of the audit findings.

Article 94. The Bank of Russia shall be obligated, in accordance with the agreement concluded with the auditing firm, to submit the report and information necessary for the conducting of the auditing examination.

The agreement on the audit should stipulate the volume of information to be transferred to the auditing firm, as well as its accountability for transferring the obtained information to third persons.

The payment for the auditing firm's services for the audit of the Bank of Russia shall be made using the Bank of Russia's own funds.

Article 95. An internal audit of the Bank of Russia shall be implemented by the main auditor's service which is directly subordinate to the Bank of Russia's chairman.

Addenda

Article 2. This federal law shall go into effect as of the day of its official publication.

Article 3. The submission of the nomination for the Chairman of the Bank of Russia for the consideration of the State Duma shall be accomplished no later than a month from the day this federal law goes into effect.

The submission of nominations for members of the Board of Directors on the recommendation of the Bank of Russia's chairman shall be accomplished over the course of a month from the day the Bank of Russia's chairman is appointed to the position.

Article 4. As of the day this federal law goes into effect, the following shall become invalid:

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the RF Law on the Monetary System of the RF (Records of the RF Congress of People's Deputies and the RF Supreme Soviet, 1992, No 43, p 2406);

and the Charter of the RSFSR Central Bank (Bank of Russia) (Records of the RSFSR Congress of People's Deputies and the RSFSR Supreme Soviet, 1991, No 29, p 1012).

Article 5. Article 32 of the Federal Law on the Central Bank of the RF (Bank of Russia) shall go into effect as of 1 July 1996; and the third part of Article 80 of the stated federal law shall go into effect over the course of a year from the day the law goes into effect.

Article 7 of the stated federal law shall go into effect as of 1 January 1996 with respect to Russian banks and as of 1 January 2000 with respect to credit organizations in partnership with the Bank of Russia, which have been established in foreign states.

For credit organizations operating on the day the stated federal law goes into effect, the third part of Article 64 of the stated federal law shall go into effect as of 1 January 2000 and the second parts of Articles 69 and 72 shall go into effect as of 1 January 1996.

[Signed] RF President B. Yeltsin, Moscow, the Kremlin, 26 April 1995.

*Efficiency of Currency Control System Assessed

954E0909A Moscow KOMMERSANT-DAILY in Russian 27 Apr 95 p 4

[Interview with Viktor Melnikov, Chief of the Main Administration for Currency Regulation and Currency Control of the Central Bank, and Aleksandr Sedov, Acting Head of the Federal Service on Currency and Export Control, by an unnamed KOMMERSANT-DAILY correspondent; date and place not given: "...Currency Control Intends to Become Broader and Deeper"]

[FBIS Translated Text] **The closer the elections the more outspoken the various levels of inquiry become. Many experts are asking themselves the question as to whether it was by chance that the scandal surrounding Rosvooruzheniya became public knowledge only six months after the inquiry had been completed. Among the organs which can take up the disclosure baton are the basic Russian controllers: the Central Bank (more precisely its main administration for currency regulation and currency control) and the Federal Service on Currency and Export Control. For now they keep their secrets and the mass media cannot boast that currency controllers are their frequent authors. However, VIKTOR MELNIKOV, Chief of the Main Administration for Currency Regulation and Currency Control of the Central Bank, and ALEKSANDR SEDOV, Acting Head of the Federal Service on Currency and Export Control, have kindly agreed to answer KOMMERSANT-DAILY's questions.**

[KOMMERSANT-DAILY] How do you evaluate the prevailing system of currency control?

[Melnikov] As a result of the spread of the Central Bank and State Customs Committee's system of currency control to all Russian exports in 1994, enterprise (foreign) currency account receipts increased by 76 percent in comparison with 1993 while exports increased simultaneously by 8 percent. According to our estimates, currency earnings concealed abroad represented up to 70 percent of the entire value of Russian exports in 1992 and 30-40 percent in 1993. This unfavorable trend was broken in 1994. Only 12 percent of currency export earnings, about $2 billion, was not received into Russian banks in the established time periods (180 banking days).

In connection with the fact that the Central Bank and the State Customs Committee had been able to create an effectively operating consolidated system of control over [foreign] currency exports in 1994 one needs to note that the attempts of the Ministry of Foreign Economic Relations to create its own unified automated system of control is unnecessary in our view. The liquidation of the institution of special exporters has deprived the ministry of subordinate organizations, while the control system will actually be able only to duplicate part of the Central Bank and State Customs Committee's control system.

Finally, Central Bank control over currency in cash (nalichnaya valyuta) operations is another priority in the field of currency regulation. In particular, the putting into operation in February of this year of the Central Bank's instruction on the operation of exchange points has permitted the strengthening of control over the circulation of currency in cash, the cutting off of part of the counterfeit dollars, etc. A certain saturation with currency in cash has occurred in the country as a whole. In addition, both a definite stabilization of the currency exchange rate and an increase in the attractiveness of ruble deposits is evident this year. The drastic diminution (three times) in the importation of currency in cash by the banks in February in comparison with January has been the consequence of the operation of the above-named factors. Some $33 billion in cash was imported into Russia all told over the period from June 1993 to January 1995, $21.7 billion in 1994. In January 1995—$2.6 billion, February—$0.86 billion of currency in cash.

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[KOMMERSANT-DAILY] Viktor Nikolayevich, what's with the licensing of the export of capital from Russia?

[Melnikov] According to the law "On Currency Regulation and Currency Control," determination of the procedure for conducting operations regarding the transfer of capital is to be a prerogative of the Central Bank. Such a document has not been drawn up as yet. However, even now the Central Bank is handling control over the export of capital abroad. Licenses are being issued first of all in the case of the implementation of export-oriented industrial investments. Thus, in 1994 the Central Bank issued licenses amounting to $100 million.

[KOMMERSANT-DAILY] How will currency control develop in the near future?

[Sedov] Our service's proposals have been reflected in the pertinent decisions of the president and the government. Among them are the granting of privileges in the conducting of currency and foreign trade operations, regulation of toll and barter operations, introduction of a system of the mandatory expert review of the evaluation of the quantity, quality, and price conformity of raw materials being exported, and strengthening of criminal liability for the violation of currency legislation.

Taking into account the need for coordinating the activity of the federal organs of executive power, the currency control agents and organs, and the Central Bank and in an effort to prepare coordinated decisions and enforceable agreements in the area of currency regulation and currency control, the federal service back in 1993 proposed the creation of a governmental commission on problems of currency control. The drafts of the pertinent government decree and statute concerning the commission have now been prepared by the service jointly with the Ministry of Finance and sent to the government.

[KOMMERSANT-DAILY] Currency control began as control over exporters. Has the importers' turn come?

[Melnikov] The putting into operation of the Central Bank's instruction, as well as of the appropriate presidential edict about control over imports if necessary, is a priority in currency control. The 1994 increase in the amounts of advance payments for import contracts not subsequently executed led to the fact that $6.7 billion was transferred abroad without subsequent imports. The drain of capital abroad with the help of fake import contracts can be reduced two to three times already in 1995. To do this it is necessary that the new enforceable agreements should provide for a drastic reduction in advance payments on import contracts. Advance payments will be replaced by a system of commodity letters of credit opened in Russian commercial banks. In world practice advance payments are envisaged only in cases of deliveries of high-tech equipment and supplies. In these cases prepayment will be retained also in Russian practice. If in the remaining cases the importers insist on the need for advance payments, then the Russian banks will be obliged to require guarantees from first-class western banks or of companies well known on the world market from their clients. If bank guarantees are not given the importers will be obliged to deposit an amount equal to the amount of the advance payment in a Russian bank.

[Sedov] Checks of importers are constantly being made. Repeated cases of 100 percent prepayment for equipment purchased on import long before (more than 180 days) its delivery to Russia and without the appropriate Central Bank authorization have been uncovered in the course of the inquiries being conducted. This essentially means the granting by Russian residents of an interest-free loan to the foreign suppliers and in large purchases of equipment—the direct financing of the expenditures of the foreign supplier for its production and in individual instances, possibly, agreement of the partners in the distribution of benefit. The broad expansion of advance payment for import purchases, moreover not only for products with lengthy manufacturing periods, represents a serious danger for the country's economic interests, since it can be used for the direct draining of currency resources abroad.

The Federal Service does not keep a separate record of the losses from the payment of import contracts by an advance. However, one can point out that with the use of the measures provided by legislation for attacking violators of currency and export law, including fines, significant amounts—billions of rubles and millions of dollars—have been transferred to the state's revenue.

[KOMMERSANT-DAILY] How do your departments structure their interrelations?

[Melnikov] The Central Bank and the Currency and Export Control Service have set up working relations. At the same time I would like to emphasize that it is now necessary to create a single federal financial control department which would unite in its ranks both the federal service and the tax police and part of the MVD. A strong organization is needed which would be capable of accomplishing the following tasks as a totality: to implement control over the movement of currency funds and the conduct of non-residents and to carry out strictly police operations in cases of tax concealment and money "laundering." That is, a service like the Italian Financial Guard is needed now. That is why even the creation of a governmental commission on exchange control will yield only a short-term effect if

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an unified financial control service is not created under it.

[Sedov] According to the Russian Federation law "On Currency Regulation and Currency Control" the Bank of Russia is the main and monopoly organ for currency regulation. Any proposal regarding currency control questions inevitably affects the normative base, i.e., the Central Bank's sphere of exclusive jurisdiction. At the same time it has been specified in the governmental decree of 16 June 1993 "Questions of the Federal Service of the Russian Federation on Currency and Export Control" that within the framework of its jurisdication it ensures for Russia the development of proposals regarding the improvement of currency legislation and of normative and procedural documents on questions of the development of a currency and export control system.

Central Bank documents are normative in nature. At the same time, unlike other departmental enforceable enactments, they are not subject to obligatory state registration in the Ministry of Justice and do not undergo the criminological expert appraisal which would have permitted one to foresee the consequences connected with their adoption. Various structural subdivisions of the Central Bank and even its main territorial administrations are active in currency regulation here.

Such a situation cannot help but have an effect on the quality of currency regulation which, in turn, occasionally also makes effective control difficult. In our view, it would be advisable to secure by legislation the right of the federal service to handle currency regulation functions along with the Central Bank. Such a measure will contribute to a decrease in the number of currency legislation violations as well as to preventing them in time.

*Industrial Bank Becomes Member of Asia Banks Association

954E0933A Moscow KOMMERSANT-DAILY in Russian 28 Apr 95 pp 1, 5

[Article by Yuriy Khatul: "The Russian Bank in Southeast Asia. The First Russian Has Appeared in the Asia Banks Association"]

[FBIS Translated Text] **The first Russian bank to be accepted as a full-fledged member of the Asia Banks Association was Mezhprombank (IIB). The bank's leaders immediately became a part of the association's board of directors. The recent visit of representatives of the bank to Taiwan, during the course of which this decision was made, had other important results as well. In particular, Mezhprombank concluded an agreement with the Taiwanese leasing company Hwa-Sha Leasing Ltd. for joint financing of the construction of a fish processing plant in the Russian Far East.**

From the standpoint of the arrangement of international partnership ties, Russian commercial structures have traditionally been mainly interested in countries of the West. At the same time, in terms of investment possibilities the Asia-Pacific region today is right up there with Western Europe and the United States. At least in Eastern Siberia and the Far East of Russia, the impact of capital from the Asia-Pacific region is extremely significant.

Therefore one can understand the contacts between the largest Russian banks and financial structures of Southeast Asia, which have become quite active recently. Particularly with Taiwan, which occupies one of the leading positions in the world in the area of the development of banking and banking technologies and the concentration of financial resources. Nikolay Ryzhkov (then chairman of the board of Tveruniversalbank) visited Taipei last summer and discussed, among other things, the possibilities of granting credit to Tveruniversalbank. And in September, at the invitation of one of the largest financial groups of Taiwan, the island was visited by representatives of 10 Russian banks, including the Stolichnyy Savings Bank and Mosbiznesbank. A great deal of interest in Taiwan is being shown by Inkombank which, according to information available to KOMMERSANT-DAILY, intends to open a branch on the island. This year Uninkombank intends to create a consulting company on Taiwan, and Mezhekonomsberbank—a leasing company.

In a word, Mezhprombank's advancement into Asia does not seem unexpected. But the answer to the question of why the Asian bankers suddenly accepted it into their association (which was created in 1981 and unites more than 1,000 of the largest banks of the Asia-Pacific region and the world), and also immediately included its leaders on the board of directors of the Asia Banks Association is more ambiguous. In order to understand the reasons for this decision it would be appropriate to recall another achievement of the "international diplomacy" of the IIB—the recruitment for the position of the bank's vice president of the American financier Daniel McCoy (KOMMERSANT-DAILY discussed his appointment in February). His name is fairly well known in financial circles of the Asia-Pacific region. In the first place, before coming to Mezhprombank Mr. McCoy held the post of vice president of the American Union Bank, an affiliate of the Japanese Bank of Tokyo. In the second place, before he began to work with Russia, McCoy's professional interests were concentrated namely on Southeast Asia. Thus it is quite possible that the renown and respect

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for McCoy played a role in having IIB become the first Russian member of the Asia Banks Association and also the fact that its leaders were included on the association's board of directors.

Although, of course, this is not the only reason and hardly the main one. In the broader sense the Asia Banks Association's decision can be regarded as a demonstration of the broad interests of entrepreneurial circles of Southeast Asia in Russia. This interest, incidentally, is mutual. A typical example in this regard is the agreement between Mezhprombank and the Hwa-Sha Leasing Ltd. company for joint financing of the construction of the fish-processing plant in the Far East. The possibility of importing fish products from Russia is attractive to countries of the Asia-Pacific region, and the largest Russian exporter of fish and one of the largest stockholders in the Mezhprombank—Sovrybflot—needs investments. The agreement prescribes that 35 percent of the products from the plant, which will become a joint venture, will be exported to countries of the Asia-Pacific region. At the same time, under a guarantee from Mezhprombank another of its partners—Chine Trust, one of the largest banks of Southeast Asia—is investing $8 million in the project, with which the necessary equipment will be leased.

*Savings Bank Taking First Step Towards Privatization

954E0950A Moscow KOMMERSANT-DAILY in Russian 6 May 95 p 6

[Article by Maksim Akimov: "Sberbank Stockholders Meeting: Privatization of Sberbank Has Become Almost Inevitable"]

[FBIS Translated Text] **Judging from everything, one of the largest Russian banks, Sberbank Rossii [Savings Bank of Russia], is on the threshold of far-reaching changes. Yesterday during the annual meeting of the bank's stockholders, it was announced that the controlling block of Sberbank stock which used to be in the hands of the Central Bank of Russia is being transferred to Goskomimushchestvo [State Committee for the Administration of State Property, GKI], although this is merely the "last stop" before full privatization of the bank. The rules for the bank's privatization should be worked out and definitively approved within the next 30 days. Despite the good intentions of GKI, which announced its desire to sell the bank stock primarily to physical persons, KOMMERSANT experts believe that as a result the situation may go completely out of the state's control. Today no one will undertake to predict whom the bank will belong to in a few months.**

What Investors Are To Fight For

Sberbank Rossii is the only former specialized bank, if one does not count Agroprombank [Agricultural Industry Bank], that has managed to retain its structure completely. And unlike Agroprombank, which is essentially a simple distributor of the centralized resources of agricultural enterprises, even now Sberbank remains a structure which actually earns money. The bank remains the leader in the personal deposits market—about 60 percent of the market. Despite the upheaval of the age of reforms (the devaluation of deposits in Sberbank as a result of the 1992 liberalization of prices), the population continues to consider Sberbank the safest banking institution—deposits in the bank are formally protected by a state guarantee.

Sberbank Rossii has the most farflung network consisting of almost 40,000 departments and branches located throughout the entire country. About 224,000 people work in the Sberbank system. The bank's hard currency balance has passed 40 trillion rubles [R], which is twice as much as that of Vneshtorgbank Rossii [Foreign Trade Bank of Russia], which is next in line behind it (R19 trillion). The past year's profits came to R1.77 trillion. The bank's income allowed it to pay decent dividends on stock—150 percent annually on ordinary stock and 250 percent annually on preferred stock (the dividends were the same in 1993 too).

But we should take into account that Sberbank is burdened with serious problems too. Above all, the bank itself is very heterogeneous; there are the Moscow Bank of Sberbank Rossii and some regional banks (the Rostov Bank, for example) which meet high contemporary demands and offer clients a broad assortment of services, and there are the other regional banks which work in the old way. For example, of the 79 territorial banks, only 2, the Moscow and St. Petersburg banks, service international credit cards, which is customary for many commercial banks.

The continuing economic crisis could not fail to have an effect on Sberbank too. The amount of overdue loan debts on credits issued doubled in Sberbank as compared to last year and came to 13 percent, while in absolute figures it was R1.8 trillion.

Banks Simultaneously Want and Do Not Want To Buy Sberbank

Debates on Sberbank's status have been going on for several years now, at times dying down and at times flaming up. Two points of view compete. The first is that if Sberbank is a state bank and the state guarantees personal deposits in the bank, the state's share in its capital should be 100 percent. The bank should cease

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to operate as a commercial bank, that is to say, it should stop handling risky transactions (notably on the interbank credits market), and come under strict control of the state represented by the Central Bank. The other viewpoint is that if Sberbank is a commercial bank, then it must be privatized completely and the state guarantee on deposits must be repealed. The Sberbank's intermediate position which existed in practice, as both a commercial (that is, independent to a large degree) and a state bank (the guarantees were retained), suited the higher management of Sberbank itself, and not just them. But the "privatizers'" viewpoint gradually prevailed.

Debates surrounding Sberbank erupted with new force when Tatyana Paramonova came to power in the Central Bank. In December of last year, Tatyana Vladimirovna announced in one of her statements that it was impossible to continue a situation where the state provided guarantees on Sberbank's obligations but at the same time could not intervene effectively in its day-to-day activities. The managers of Sberbank sharply opposed "statization" of Sberbank at that time. And the Central Bank, according to KOMMERSANT reports, began to probe the possibility of transferring the state's block of Sberbank stock to other organs, notably the Ministry of Finance, but could not find people who wanted to be responsible for the bank among state officials.

Then the idea of transferring Sberbank stock to a number of large commercial banks began to circulate in banking circles. Some banks initially liked this idea. It was an honor to become an owner of Russia's largest bank and master of enormous assets and the largest network of branches. According to KOMMERSANT reports, the managers of some banks who were part of a well-known consortium held talks with highly placed government officials on the possibility of transferring Sberbank stock, among other things, to them to manage. The repudiations of these reports which then followed from SBS [no expansion provided], ONEKSIMbank, and Inkombank [Foreign Commercial Bank] obviously reflect a certain "reappraisal of values" made by the bankers. First, one bank or some group of banks seizing the controlling block of Sberbank stock would inevitably encounter the opposition of their competitors and could cause a real bank war. Secondly, having thought things over well, the bankers came to the conclusion that they would have to pay too heavy a price for the honor of owning Sberbank, in the form of enormous investments in the bank. Moreover, the bankers also considered the possible political consequences of such an action. As a result, most of the banks began to incline to the idea that it would be better to keep the status quo in Sberbank for a time. According to KOMMERSANT reports, the only person who continues to argue for the fastest possible division of Sberbank is Oleg Boyko, the manager of National Credit. However, it does not appear that he will be able to maintain the existing situation.

Those Wishing To Acquire Sberbank Have Been Given the Command: On Your Marks!

The law on the Central Bank which required the Bank of Russia to refrain from participating in the capital of commercial banks was finally adopted in April. At approximately the same time, the manager of GKI, Sergey Belyayev, publicly confirmed that state shares in the capital stock of banks would be privatized. Here he emphasized specially that Sberbank would be the first to be privatized in 1995. The transfer of the bank's stock to new hands became practically inevitable.

However, until the very last moment the concrete mechanism for privatization was unclear. Yesterday, in the middle of the stockholders meeting, first vice premier Anatoliy Chubays and chairman of Goskomimushchestvo Sergey Belyayev unexpectedly appeared in the hall; their presence, according to the organizers, was not planned in advance. Oleg Boyko came along with them as well. During a specially announced break, the Sberbank leadership, in the presence of Viktor Chernomyrdin according to rumors, was informed of the transfer of the controlling block of Sberbank stock to Goskomimushchestvo. Obviously the state will in fact buy up part of the new issue of stock (Sberbank capital is to be expanded from R100 billion to R500 billion). But this is merely an intermediate stage; afterward the stock will be sold into private hands. The particular rules for selling the Sberbank stock should be formulated within 30 days. That is exactly how long the decision of the stockholders meeting, which will have to meet again, has been postponed.

According to preliminary information, GKI wants to see above all the private persons who are the bank's depositors as the new stockholders. The plan of the organizers of Sberbank's privatization is that dispersing the joint stock capital among a great many private persons will allow the bank's leadership to control the situation. According to Belyayev, the state's block of stock will be sold in small shares under the complete control of Goskomimushchestvo. It is also possible that auctions will be organized in addition to distributing the stock among the population. In KOMMERSANT's opinion, it is not impossible that restrictions will be imposed on the maximum size of the individual stockholder's holdings, as well as other measures which the state has fallen back on, in privatizing Gazprom [Gas Industry], for example. Incidentally, real life has proven the ineffective-

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ness of such measures, so the present situation can be considered the declaration of the start of the struggle for control over Sberbank. There can be no question that the struggle will unfold. All large banks will take part in the race, if only out of fear that their competitors will pass them. The organization of buy-ups of interesting stock has already been worked out using the stock of Russian oil and metallurgical companies as an example. Here some analysts are predicting parliament and political parties will intervene in the story of Sberbank's privatization. So perhaps no one will undertake to predict whom Sberbank will belong to next year.

[Caption to the photograph] The former chairman of the Central Bank of Russia, Viktor Gerashchenko (standing on the left), indicates the acting chairman of the Central Bank, Tatyana Paramonova, and the first vice premier of the Government of Russia, Anatoliy Chubays, people upon whom Sberbank Rossii's fate now depends.

***Trading on Moscow Interbank Currency Exchange**

954E0942A Moscow KOMMERSANT-DAILY in Russian 5 May 95 p 7

[Unattributed article under the rubric "Moscow Currency Auctions": "A Stable Exchange Rate Will Be Preserved to the End of the Holidays"]

[FBIS Translated Text] *The exchange rate of 5,130 rubles/$ that was reached in the MMVB auctions last Saturday has been maintained at that level so far. The increase in exchange quotations was just 30 points, or 0.59 percent (0.97 percent a week earlier), for the period from April 28 to May 4 as a result. The relatively stable rate will to all appearances be preserved into the near future—a resumption and, possibly, an acceleration of its rise are most likely on May 11.*

The "first of May" syndrome occurred leading up to yesterday's auctions at the Moscow Interbank Currency Exchange [MMVB], and the activity of the banks reached an average statistical level. Whereas the demand for currency was at $37.09 million as recently as May 3, it was $114.36 million in yesterday's auctions, an increase of $77.17 million. The supply increased by roughly the same amount—the amount of sale bids of currency increased by $75.14 million, and was at $113.33 million.

The small negative balance that took shape as a result (in the amount of $1.03 million) left virtually no doubt that the exchange quotations would remain at their previous level. That is indeed what happened. After the Central Bank offered an additional $1.02 million for sale, one of the commercial banks acquired a needed $10,000 and closed the trading at the initial rate of 5,130 rubles/$. The net turnover, as well as the volume of initial bids for the purchase of currency, increased by $77.17 million and totaled $114.36 million. The net volume of sales increased as well—the actual turnover increased by $9.55 million, and was at $10.19 million.

The commercial banks are currently quite passive in the currency market nonetheless. This is understandable. It makes no sense to conduct active operations during the period between the holidays, particularly because under the terms of the auctions the banks have to deposit the funds intended for the procurement of the currency into a clearing account at the MMVB a day before the session, while the settlements for deals made are performed on the second day following the auctions. This operating regimen is clearly unprofitable for the banks under conditions of frequent holidays. This can partly explain their low levels of activity on May 3—they had to have deposited funds on April 29 in order to purchase currency on that day. The virtually complete calm in the currency market was also conditioned by the minimal gap between the exchange quotations and the interbank market. "Tomorrow" deals in the interbank market, for example, were concluded yesterday at the same exchange rate as on the exchange, 5,130 rubles/$.

The relatively stable exchange rate of the dollar, to all appearances, will be preserved until the end of the holidays devoted to Victory Day (that state of the currency market is important at least from the demonstrative political viewpoint). It cannot be ruled out that somewhat of a rise in the exchange quotation could occur today. The principal events will most likely begin to be launched on May 11 (May 10 is not counted because of the same necessity of depositing funds to buy currency for a prolonged period). The rate of the dollar will obviously rise after the holidays, and possibly at an accelerated pace. That is owing to the fact that over the last three weeks, when the rate of increase in the quotations was low (0.4 percent from April 14 through 20, 0.97 percent from April 28 through May 4 and 0.59 percent this week), a lag in the rate of increase of the dollar exchange behind the rate of inflation has accumulated.

The Ministry of Finance and the Central Bank are not ruling out that the objective rise in the rate of exchange under these conditions could be intensified by a play for an increase that is being consciously planned by "a group of banks." A group of experts from "b" are of the opinion that it is precisely a desire to prevent possible disturbances that was the reason for the appearance of the optimistic and reassuring press release of the Central Bank and the Ministry of Finance (see "b" of May 3). No clear signs of a coming "play" (such as a sharp imbalance in the exchange quotes and the interbank

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market or a substantial rise in the volume of currency operations), however, have been observed as yet.

***Decree Calls for Reorganizing Academy of Modern Economics**

954E0921A Moscow ROSSIYSKAYA GAZETA in Russian 4 May 95 p 4

[Decree of the Government of the Russian Federation of 20 April 1995, No. 371, Moscow: "On Reorganization of the Academy of Modern Economics under the Ministry of Economics of the Russian Federation"]

[FBIS Translated Text] The Government of the Russian Federation decrees:

1. Partially changing point 3 of the Decree of the Government of the Russian Federation of 16 July 1994, No. 839, "On Scientific Research and Training Organizations under the Ministry of Economics of the Russian Federation" (SOBRANIYE ZAKONODATELSTVA ROSSIYSKOY FEDERATSII, 1994, No. 14, page 1646), consent shall be given to the Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation on Higher Education concerning reorganization of the Academy of Modern Economics under the Ministry of Economics of the Russian Federation by merging it with the Higher School of Economics of the Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation on Higher Education into one state higher educational institution—the Higher School of Economics of the Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation on Higher Education (hereinafter referred to as the Higher School of Economics).

2. It shall be established that the Higher School of Economics shall provide training, retraining, and improvement of qualifications of workers of the central apparatus of the Ministry of Economics of the Russian Federation, other federal organs of executive power, and also enterprises, institutions, and organizations, and shall conduct scientific research on the subject matter of the Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation on Higher Education.

3. Partially amending point 6 of the Decree of the Government of the Russian Federation of 13 September 1994, No. 1047, "On Organization of Retraining and Improvement of Qualifications of State Employees of Federal Organs of Executive Power" (SOBRANIYE ZAKONODATELSTVA ROSSIYSKOY FEDERATSII, 1994, No. 21, page 2393), the list of educational institutions providing retraining and improvement of qualifications of government employees of federal organs of executive power shall include the Higher School of Economics of the Ministry of Economics of the Russian Federation and the State Committee of the Russian Federation on Higher Education, excluding from the aforementioned list the Academy of Modern Economics under the Ministry of Economics of the Russian Federation.

4. The State Committee of the Russian Federation on Administration of State Property shall assign to the Higher School of Economics with the right of operational administration buildings and structures that are federal property and located in Moscow on Kochnovskiy Avenue, Building 3, and Malyy Gnezdnikovskiy Lane, Building 4.

[Signed] Chairman of the Government of the Russian Federation V. Chernomyrdin

***Wage Arrears Due Not to Lack of Money, But Lack of Oversight**

954E0921B Moscow ROSSIYSKIYE VESTI in Russian 4 May 95 p 3

[Article by Lyudmila Biryukova: "Financial Discipline. They Are Not Paying Wages, But They Are 'Circulating' Money"]

[FBIS Translated Text] This is what many enterprise managers are doing, taking advantage of the absence of a state control mechanism.

In statistical reporting they sometimes introduce a new column that shows arrears on wages. It can use any unit of measurement, it could be in money or it could be in months. At a recent session of the Cabinet of Ministers, the speaker used both indicators. It turns out that on average throughout industry, wages are being paid 1.5 months late and in agriculture—2.5 months late. As of the middle of April, at enterprises of industry, construction, and agriculture and transportation alone, arrears on wages amounted to 5.7 trillion rubles [R], which is 36 percent more than in January of last year. The number of enterprises where the workers are working as though on credit is increasing and not decreasing—and what a problem this is.

The problem has been around a long time, but nobody paid any attention to it until there was a spark, first in one place then in another. It burst into flame in the Maritime region. The miners' strike, complicated by the hunger strike this time, for some reason, reverberated especially painfully in all segments of society. Perhaps it was because television showed the entire country on a large scale how the miners in their weakened condition were being raised up on stretchers and taken to the hospital... it seems that this even got through to our

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government, which in general likes to take a long time getting into gear. Finally it decided to demonstrate its high speed.

The budget indebtedness to the miners of the Maritime region and their associates was eliminated in just a trice. After which the state decided that it has every moral right to properly educate other debtors. For the sake of justice, it must be noted that, for instance, if one were to rank all those who owed money to the Primorskugol association, the government, with its meager Ministry of Finance, would end up somewhere around fifth place. But ahead of it are numerous coal consumers: cities, villages, enterprises.

As distinct from all the rest of Russia, which has been spoiled with an abundance of oil and gas, the Far East is heated exclusively by coal. There is just barely enough of it here. All the miners would have to do would be stop sending fuel to the heating and electric power plant for two days during the winter, and Vladivostok's whole heating system would freeze up. Therefore, the local authorities are putting on the pressure: Send it faster! At the same time, they have been ignoring the timid hints from the miners about the fact that it would be nice to be paid for the coal that was sent long ago. And the miners decided to strike only in the spring, after the heating system had come to an end.

It is no accident that First Deputy Prime Minister Anatoliy Chubays sharply criticized the governor of Maritime Kray, Yevgeniy Nazdratenko: He is not the least of those to blame for the outbreak of local nonpayments. You will agree that it is offensive to hear slogans like "Government—resign" with respect to matters in which the government's share of guilt is minimal. Moreover, the existence of a scapegoat at a high level in the form of the Cabinet of Ministers led to a situation where they neglected a number of diseases that had broken out noticeably at the lower level of the economy. What does it mean that the enterprise has no money with which to pay wages? Everywhere you look this is the result of the business incompetence and financial irresponsibility of the management of the plant, combine, or joint-stock company. And the tardiness of the payment of the promised budget funds is used for camouflage.

A government commission recently inspected a large group of insolvent enterprises. As soon as they were told of the need to file bankruptcy, which means first of all replacement of the director, the majority of them immediately found some money which had previously been noticeably lacking. Everywhere you look, wages are being held back at plant that have solid currency accounts. The editorial mail brings in collective messages from workers in which the people write that they have not been paid wages for several months but the director and the head engineer, who have fairly nice apartments, are building prestigious private residences for themselves.

So far, the state does not have an effective mechanism for monitoring the efficiency of the utilization of subsidies to various branches that are allotted from the budget. The inspections are selective and rare. But what do they show? That the money, as a rule, is not going for the needs of production or for paying people for their labor, but is being "circulated" in various commercial structures in which the management of the enterprises are involved. This was the case with the Primorskugol joint-stock company, against which the kray procuracy filed criminal charges.

Thank you to the miners of the distant Partizansk: Their strike prompted the government to take resolute steps in the direction of radical measures. The Ministry of Economics is developing a mechanism for utilizing currency accounts of enterprises for payment of arrears on wages. A decision has been made to make the treasury a subdivision of the Ministry of Finance of the Russian Federation in all regions. Funds from the budget for defense and other enterprises will pass through them. The treasury is a monitoring organ, and the money will no longer "leak" out.

In the near future on the desk of the president of Russia will be a draft edict "On Temporary Procedures for the Utilization of Monetary Funds Received in Current Accounts of Enterprises and Organizations," which makes it mandatory not to pay dividends on shares when there are arrears in wages. Moreover, the government has applied to the State Duma with a request to accelerate the adoption of the federal law "On Reimbursement for Material Damages in Connection with Late Payment of Wages" and also supplements to the Labor and Criminal Codes that introduce sanctions against employers for delaying payment of wages. The law, in particular, envisions indexation of sums owed to workers according to the level of inflation. The manager must know that if he has not paid his wages he will have to add interest later. And he will have to hire additional bookkeepers to do the calculations. Perhaps with this we will finally eliminate one of the main reasons for the critical social tension in the society.

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***Moscow State Tax Police Chief on Tax Services in 1995**

954E0941A Moscow KOMMERSANT-DAILY in Russian 4 May 95 p 3

[Article by Natalya Varnavskaya and Sergey Kochetov under the rubric "Problems of Moscow Taxation": "Moscow Collects a Fifth of All Russian Taxes"]

[FBIS Translated Text] *Significant reforms await the system of taxation of Russian small business. The federal government is currently considering draft legislation under which the institution of a single "income tax" on small enterprises is planned, with a maximum rate of 30 percent, instead of the host of existing taxes. The director of the Moscow State Tax Inspectorate, Dmitriy Chernik, announced this at a recent press conference. Mr. Chernik also talked about the principal results of the activity of the city's tax service in 1995.*

The tax climate in the city eased somewhat in the first quarter of 1995, in the words of Dmitriy Chernik. The rate of the profits tax paid to the city budget was lowered for Moscow taxpayers as of the start of the year in particular, from 25 to 22 percent. The tax bodies, true, were still charging the tax at the rate of 25 percent in the first quarter of 1995, as for last year. All discrepancies between the federal and city legislation have now been eliminated, however, and a recomputation and credit for the tax will be given to all enterprises that paid the profits tax at the rate of 25 percent in 1995. The rate of the special tax has also been lowered from 3 to 1.5 percent.

These are the principal tax adjustments that have already been instituted in 1995. Dmitriy Chernik noted in particular, among the proposed changes, a substantial change in the procedure for the taxation of small business. These changes will affect one out of five able-bodied Muscovites—more than 20 percent of them work at enterprises of small business in the city, according to statistics (an average of 12—13 percent of the workers are employed at small enterprises in Russia).

The system of accounting, reporting and taxation is thus proposed to be fundamentally altered for small enterprises. A single tax will be instituted for them instead of the current multitude of local and federal taxes. The preliminary name for the new, simplified tax is an "income tax." The maximum rate is proposed to be 30 percent; 10 percent will go to the federal budget, and up to 20 percent (the specific rate will be determined by the local authorities) will go to the budgets of the entities of the Federation.

The principal difficulties in the development of the new system of taxation for small business will arise in defining the term "small business."

The law on the taxation of profits contains somewhat of a definition, where the criterion of the number of workers in a company was selected. That does not make sense, however, in the opinion of Dmitriy Chernik: a firm with five people trading in computers could make a thousand times more income than a cooperative of 50 people growing carrots. The better an enterprise is automated, moreover, the fewer workers it has. It makes more sense to select more objective criteria—the amount of profits of an enterprise, for instance, or its total sales.

Dmitriy Chernik, in summing up the results of the activity of the tax inspectorate, noted that the share of Moscow tax receipts in the overall amount of Russian taxes increased considerably over the first four months of 1995—Moscow collected 15.02 trillion rubles from January through April, or 18.1 percent (compared to 16.9 percent in 1994). Some 59 percent of the funds collected went to the city budget, and 41 percent to the federal coffers. It is interesting that financial sanctions imposed on Moscow taxpayers totaled 1.296 trillion rubles and more than $26 million therein.

The active increase in the number of commercial enterprises in the city continues—the increase has been 15,200 companies this year. There are now more than 383,000 enterprises operating in Moscow today. The main body of Moscow enterprises are joint-stock companies (262,000 out of the 383,000). State enterprises remain the most diligent taxpayers—even though they are not more than 2.7 percent of the overall number of legal persons, they pay 16 percent of the tax on profits.

***Future of Electronic Mail Company Debated**

954E0954A Moscow KOMMERSANT-DAILY in Russian 7 May 95 p 9

[Unattributed article by Companies and Markets Department correspondents: "The Situation Concerning AO Relkom and FAPSI—New Misfortunes: Electronic Mail in Uniform"]

[FBIS Translated Text] Last Saturday KOMMERSANT published reports from the stockholders meeting of AO [joint stock company] Relkom, to which the Moscow complex of the famous electronic mail network of the same name belongs. The question on the meeting's agenda of an additional issue of the AO's stock produced unusually sharp debate. If the Federal Agency of Government Communications and Information [FAPSI] becomes one of the major co-owners of AO Relkom

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(and there are signs of such a development of events), the situation on the Russian telecommunications market in the coming months will be difficult to predict. Correspondents of the Companies and Markets Department tried to figure out the situation which is taking shape.

How Relkom Came to Such a Life

We will not be sinning against the truth if we call Relkom electronic mail (and not just it) a window on world information space. If you have a personal computer, a modem, special software, and a subscriber agreement with one of the electronic mail networks, you can quickly exchange any information entered in the computer with any other subscriber of either "your" network or of all others to which the network has access.

The associates of IVTs [information and computation center] of the Institute of Atomic Energy imeni Kurchatov and the Demos scientific research cooperative were the first ones in Russia to realize the significance of electronic mail. In 1990 they created a small network with the pretentious name Relcom (reliable communications [in English and Russian]). Incidentally, the authors had a moral right to this—their electronic mail had unique capabilities at that time and became so popular that it became a household word: "You don't have a fax? How about relkom?"

In 1991 one could already access the world information network Internet through Relkom. During the August putsch, Internet literally swarmed with reports from Russia, while Russian regions received the latest information (including all edicts and addresses of Boris Yeltsin) from the capital with a delay of only a few hours. Strange as it may seem, the eighth directorate of the KGB was not blocking Relkom at that time. Participants in the events recall: "People from No 8 called us and wanted something, but no tough measures were taken." People say that in the confusion of the putsch, the eighth directorate simply could not get its hands on Relkom, and in addition at that point people in the KGB underestimated the significance of this system. After the putsch, No 8 was taken out of the KGB, purged, and renamed FAPSI. We can assume that people in the Agency remembered the lesson offered by Relkom, among other things.

In late 1991, AO RINAKO turned its attention to Relkom. The network became a toll network, and in addition to Moscow, Relkom centers emerged in regions. AO Relkom was registered in Moscow with capital stock of 101 million rubles [R]. The founding fathers (the Kurchatov Institute and Demos) received half of the stock—for their ideas and work. IVTs director Aleksey Soldatov, Kurchatov Institute director Yevgeniy Velikhov, and Konstantin Borovoy, head of RINAKO at that time, became cochairmen of the council of directors.

We must mention that AO Relkom and the Relkom network are two very different things. The AO controls only the Moscow center of the network, while other cities are the domain of 120 independent firms. The AO's relations with regional centers are by contract. Regions pay a relatively small amount to Moscow for the "name." The story of the trademark is very interesting, by the way. Even after AO Relkom was registered, the trademark was registered under Demos, although Demos is not considered a charter member of the AO now (about that a little later).

The charter members adopted a course to sharply enlarge the network. Another issue of stock was planned for 1992 in order to use RINAKO efforts to bring the capital stock up to R1 billion. That was a lot of money then, and if the plan had been realized, it would be unbelievably difficult to compete with Relkom now. But things turned out differently.

Gaydar's macroreform shrank the free money supply and the population did not have the money for RINAKO stock. According to various sources, Relkom received at most R15 million from the public placement of shares of stock. But the "charter" was closed at R200 million. A little was sold to new charter members, while on the order of R60-R80 million remained at the disposal of the council of directors. People say that organizations from the Rosvooruzheniya [Russian Weapons] system received part of this stock.

But Demos was expelled from the charter members. A conflict arose in this firm between the Relkom programmers and the electronic equipment dealers in 1992. Most of the programmers left for Relkom. But some remained at Demos and also maintain an electronic mail network now. But the trademark stayed with Demos. It was decided to leave the difficult-to-resolve conflict as it was. Now both firms cooperate, and to the client of the Relkom network, their mutual independence is practically unnoticeable. It must merely be decided whom they should register with and whom should be paid the modest subscription fee (6 months of standard service costs roughly 100 dollars). Because the services are so cheap, the turnover of AO Relkom is not large either, 2.5 million dollars in 1994. Without large outside investors, the lion's share of the income goes for development, and this is already the third fiscal year in a row that has ended without profits for the AO.

Last year AO Relkom faced the problem of attracting investments in all its magnitude. While it used to be that the Russian-American joint ventures Sprint and Sovam-Teleport were on a "different floor," now they have

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become direct competitors. With the enormous financial potential of their foreign founders (Sprint and SFMT [both in English], respectively) as compared to Relkom, the joint ventures began to take away large Russian commercial banks as clients and went into the regions. The threat of losing such competitive advantages as coverage of the regions and the spectrum of services and even their low cost hung over Relkom. The persistent popularity and purely Russian origin were the only things remaining.

Whom could they sell out to?

Pre-Sale Preparations

The possibility of a joint venture with a powerful foreign firm was completely realistic, according to AO Relkom associates. But judging from everything, Aleksey Soldatov chose a different path. Possibly from a desire to keep his post. In order to beat the competitors on the free market, Relkom needs investments which are an order higher than the capital stock of AO Relkom, in the estimate of Soldatov himself. But will the hypothetical investor want to bring his own people into management in such a situation? A slightly different motivation is also possible. The Russian origin of Relkom gives this network the advantage of the possibility of using important state institutions without fearing that information will leak abroad. And in that case they will not leave Relkom in financial trouble.

That is obviously where the interests of the AO Relkom management and FAPSI intersected. What some Relkom associates say, that "FAPSI does not have its own telecommunications channels a la Relkom," is somehow not believable. This office always gathered special information for the supreme organs of power, and there are 300 doctors of science alone working there. Nonetheless, things are not going well with gathering information in the country now (see information note). Moreover, elections are coming soon and all the special services are trying to score points. If FAPSI takes over Relkom, it will probably score points.

The growing rivalry of the special services can be seen not only in the passions surrounding Relkom. FAPSI's positions have been somewhat weakened lately. The "Kremlin" ATS-1 [Automatic Telephone Exchange-1] ("supreme" special communications), for example, departed for GUO [Main Administration for the Protection of Public Order]. FAPSI thereby got fewer special assignments and probably more general assignments (and Relkom is here, incidentally). Its contract to buy equipment from Siemens (FRG) is also being perceived in varying ways, people in circles close to FAPSI assert. The point is not that there may be any quirks here—FAPSI has the power to prevent that. They are complaining that deliveries of component parts are now in the Germans' hands, and if something were to happen... It is no wonder a major contract was noisily signed to buy ATS's from the Russian concern BETO literally a few days ago (KOMMERSANT reported on that).

And another thing about noise. Recently there has been one article on FAPSI after another in the newspapers. An information source who wished to remain anonymous informed us that above all the pressure and interests of the special services rather than any other motives are behind this. To give an example. The president's edict which says that (to put it briefly) using coding equipment is acceptable now only with FAPSI's sanction came out on 3 April. The vague wording of the edict which apparently suggests that it will be made concrete in the Federal Agency produced a great deal of criticism. IZVESTIYA had some criticism. But suddenly there appeared in the same newspaper a huge article on FAPSI which made it seem that no more useful organization can be found in the country. It is not known whether there was pressure put on IZVESTIYA in the interim between the articles, but you must agree that this supposition comes to mind. SEGODNYA also writes a good deal about FAPSI, markedly more critically, but at the same time it does not favor FAPSI's rival, the recently created Administration for Information and Documentation Support Under the President's Administration (UIDO), much either. Our expert believes that most likely the point here is that someone who was "offended" and did not end up either in FAPSI or in UIDO is putting out the "leaks" for SEGODNYA.

No matter what, FAPSI will now, it is rumored, try to derive advantages from this. The Agency does not particularly conceal the same views of AO Relkom. First, the Agency has been cooperating with this firm for a long time now and is preparing new projects. Secondly, it asserts that control over Relkom will be to literally everyone's benefit. Mr. Soldatov (remember, he holds the post of advisor to the FAPSI general director at the same time) says: "FAPSI will help ensure the network's reliable operation, and that only benefits the large commercial banks. And the state has an interest in that too. If something suddenly happens with the information exchange between them and, for example, the Central Bank, the damage will be inflicted on the entire banking system." Moreover, according to Mr. Soldatov, the council of directors has not yet made the decision regarding to whom precisely the stock from the new issue will be sold and at what price. Mr. Soldatov asserts that it may be not only and not necessarily FAPSI, but "for now there are few people who want it." And as for FAPSI, the Agency has simply enlisted

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support in the event there is no buyer, according to Mr. Soldatov.

There are already several potential buyers, however. One of the stockholders at the meeting announced: "If it is at face value, today I will start to gather a billion right in the hall." But FAPSI will possibly try to exchange, say, "intellectual property" rather than budget money for the stock. Especially since to purchase AO Relkom by itself is not much, the non-Moscow centers are needed too.

The direction of the future struggle for Relkom is already clear—some of the present stockholders insist that their own priority right to the new stock must be observed. Mr. Soldatov advised them to appeal to the council of directors "on a work basis." It is possible that FAPSI will not receive the controlling block of stock.

Otherwise, the consequences for the telecommunications market, unlike the state, will not be the most joyous ones. AO Relkom, which has a strong reputation, may become unpredictable (the elections are soon). It may be deprived of some of its clients (commercial banks will leave in any case, fearing being shadowed). Access to the world information space may be lost (there are enough hackers on the Internet!). Finally, the ghost of unscrupulous competition appears. FAPSI has already been criticized because while possessing the right to certify so-called electronic signatures, it produces them itself and even sells them. We are getting information that AO Relkom's competitors (other than Demos) were already downcast after the first hints of FAPSI's heightened interest in Relkom.

We tried to get some comments from them and called Sprint. The person at the other end of the line said laconically: "We all depend on FAPSI. It would be suicide to comment on their actions."

[boxed item]

On the Condition of Information Analysis Services in Russia

At the end of last year, the Analysis Center under the RF president prepared a report entitled "On the Condition, Trends, and Problems of the Establishment of Information Analysis Services of Territorial Organs of Executive Power." It is an extremely interesting but very long document. So we are citing in brief only the basic conclusions which its authors reached.

The State of Affairs

—in the organs of executive power, 28 subjects of the RF (31 percent) have not formed separate specialized information analysis subdivisions up to this point;

—20 RF subjects (23 percent) have or are completing the creation of subdivisions well equipped with specialists and technical means in the executive organs of power;

—there is an average of 3-4 people in the information analysis services (IAS) of the other regions (46 percent).

Trends

—The rapid growth in the number of regions in which IAS's are being created. The number of these services increased by 30 percent during the year;

—The enlarged role of territorial IAS's in the adoption of administrative decisions by organs of executive power;

—Expanded interaction of territorial IAS's with regional organs of Goskomstat [State Statistics Committee], FAPSI, tax and migration services, and other bodies;

—Expanded use of popular commercial data exchange systems—the IAS's of 25 regions along with their resources and federal systems use (or plan to use) the systems of Relkom, Faksnet, Rospak, Paynet, Tekos, and others.

Problems

—Access to essential information. The interaction of territorial services with organizations which are information sources is inadequate;

—Primary processing of information. The proportion of electronic information in reports which IAS's receive is too small;

—Inadequate technical equipping of IAS's. There are no more than 2-3 personal computers (as a rule IBM PC 286's) in most regions; the total number of personal computers of regional IAS's is no more than 100;

—The practical absence of legal regulation of information processes.

Recommendations

—Increase coordination of territorial and federal organs of power and government taking into account legislatively reinforced zones of responsibility;

—Offer territorial IAS's the opportunity to use information resources of federal institutions more extensively, including expanding the makeup of information; in doing so organizational reinforcement of issues of information interaction of IAS's with territorial federal services is essential;

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—In ratifying plans for such organizations as Minnauki [Ministry of Science and Technology Policy], Roskominform [RF Committee on Information], and FAPSI, envision the introduction of new information technologies in regions;

—Speed up the adoption of legislative enactments regulating information processes.

***Sharp Decline in Textile Production Seen**

954E0923A Moscow IZVESTIYA (Finansovyye Izvestiya Supplement) in Russian 27 Apr 95 No 30, p 2

[Article by Yelena Rubleva: "Loss of Control Over Raw Materials Is Bringing the Textile Branch to Inevitable Collapse"]

[FBIS Translated Text] In the very near future, Russia is threatened with the collapse of the textile industry, because of a shortage of raw materials—this is the conclusion to which the report of the Goskomprom [State Committee on Industrial Policy] on the condition of the textile and light industry leads. The paradox consists in the fact that these raw materials are to be had in Russia; however, because of price disproportions, they are exported or re-exported onto the world market, bypassing the producer.

Here we are talking first of all about cotton. With the fall of the USSR, the country lost the producers of the white gold, which turned into a 100 percent imported commodity. Up until recently, the primary importer of cotton to Russia was Uzbekistan. Some 95 percent of this raw material came to our market from that country, and about 90 percent was within the framework of interdependent deliveries, in accordance with intergovernment agreements. This system allowed for the purchase of raw materials, on the one hand, at fixed prices, and on the other hand, 30 percent more inexpensively than the world price of cotton. It is natural that the enterprises that had expensive cotton at cheap prices strove to resell it. In 1994, of 336 imported tonnes of cotton, more than 200 tonnes were re-exported. Taking into account the fact that the world price for cotton last year steadily rose, reaching $2,000 per tonne on the over-the-counter market, one can understand that the profit for every re-exported tonne amounted to $500.

Uzbekistan's leadership also reacted to the growth in world prices (here the monopoly of foreign trade has been practically preserved); the leadership of Uzbekistan this year abandoned interdependent deliveries with Russia, and reoriented their primary export deliveries on countries of the far abroad, says Valentin Lebedev, head of the department of the textile and light industry of the Goskomprom of Russia. At the same time, Russian petroleum products and other raw materials continue to go to the Uzbek market at prices substantially lower than world ones, in accordance with direct agreements with Russian enterprises, he noted.

The situation in the textile branch is also being aggravated by the fact that it is extremely bound up precisely in cotton, and has practically renounced the use of flax, an advantage of which, aside from its consumer qualities, is also that it can be grown in Russia. However, since 1990, the output of flaxen fabrics has decreased more than threefold. The production of this raw material has decreased by a factor of more than two, while the crop capacity of this crop in our country is four times less than in Western Europe. The fact that Russia is losing out in renouncing its traditional raw materials can be seen in the fact, for example, that in France flax production takes second place in profitability, after viticulture.

Matters stand no better with the remaining types of textile raw materials. The production of wool has decreased more than threefold since 1990. And the best grades of wool are bought up directly on the hoof, and after processing are sent to export. Of the raw materials that make it to the enterprises, only 30 percent are suitable for production. The rest of the Russian wool returns to our country from abroad already processed, and, naturally, much more expensive.

The situation is analogous with leather as well. More than 40 percent of the leather raw materials are exported from Russia to the near and far abroad. Some of the raw material, in processed form, returns to the "motherland" at prices that Russian tanneries cannot afford. As a result, because of the shortage of raw materials, these enterprises were working at only one-third of capacity last year.

The raw materials crisis, along with other factors, became one of the main reasons for a 74 percent decline in production volumes of the branch in comparison with 1990.

At the same time, losses in the production output of the textile workers have turned out to be practically irreplaceable for other branches of the economy. Thus, the output of strands for cable used in metallurgy has declined almost fourfold, and the output of mechanical fabrics, almost threefold. Output of gauze and bandages fell by a factor of five, and of cotton wool, by a factor of almost six.

As for the gaps in the output of goods of widespread consumption, they have quickly been filled by imported production, to which about 60 percent of the market has been given up today.

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Thus, having lost control over the provision of the textile enterprises with raw materials, Russia along the entire technological chain—from the processing of raw materials to the output of ready goods—has begun to pay for the labor of foreign producers, whose production by no means always, either in price or in quality, surpasses domestic production.

***Decree on Modernizing Air Traffic System**

954E0934A Moscow ROSSIYSKAYA GAZETA in Russian 4 May 95 p 10

[Decree of the Russian Federation Government: "On the Federal Program To Modernize the Unified System of Organizing Russian Federation Air Traffic in the Period up to the year 2005"; No 368, 20 April 1995, Moscow]

[FBIS Translated Text] With a view to modernizing the Unified System of Organizing Russian Federation Air Traffic and to ensuring the necessary level of airplane flight safety, the Government of the Russian Federation decrees:

1. That the Federal Program To Modernize the Unified System of Organizing Russian Federation Air Traffic in the Period up to the Year 2005 (henceforth called the Program), submitted by the RF Ministry of Transportation, the RF Ministry of Defense, and the RF State Committee on the Defense Sectors of Industry and coordinated with the RF Ministry of Economics and the RF Ministry of Finance, be approved.

2. That it be established that the measures of the Program being carried out by the RF Ministry of Transportation are to be financed mainly through the funds received for the air navigation service of airplanes.

3. The RF Ministry of Economics:

In accordance with the Federal Law "On Supplying Products for Federal State Needs," the Program is to be included on the list of federal target programs;

The measures of the Program on carrying out the special requirements of the RF Ministry of Defense are to include individual items in the state defense order;

The amount to which the Program is to be financed from federal budget funds is to be precisely defined every year, in accordance with the established procedure.

4. Considering the target-oriented purpose of commodities brought into RF customs territory to carry out work stipulated by the Program, it is regarded necessary to apply to these commodities the provisions of Point "a" of Article 35 of the RF Law "On the Customs Tariff."

The RF Ministry of Transportation is to submit a list of these commodities to the RF State Customs Committee.

[Signed] V. Chernomyrdin, Chairman of the Russian Federation Government

***Oil Export Regime Seen as Oligopoly**

954E0926A Moscow DELOVOY MIR in Russian 28 Apr 95 p 7

[Article by Andrey Loginov, RISI expert: "From State Monopoly to Oligopoly"]

[FBIS Translated Text] **The export of petroleum remains one of the basic sources of hard currency coming into the country. According to official estimates, it accounts for over 25 percent of the export receipts. In absolute terms, this constitutes about $10 billion. Despite all attempts to change the structure of Russian export, petroleum and petroleum products retain their role in satisfying the country's currency needs for the foreseeable future, which makes necessary clear-cut government monitoring of this sector. At the same time, the monitoring system should not turn into an insurmountable barrier on the path of the revival of the petroleum complex, which is experiencing considerable difficulties today.**

In the last three years we have gradually been moving away from state monopoly in the sphere of petroleum export and have come close to the practice adopted in the market countries of a private-state oligopoly, the components of which act in accordance with the civilized rules which they have worked out and adopted on the basis of national traditions and special features. It is still too early to say that the return to the administrative past is impossible: in the halls of authority there is a periodic whipping up of the idea of re-establishing state monopoly in foreign trade in petroleum and petroleum products. It is at this precise moment that it is important to assess the success of the reforms made from the standpoint of economic effectiveness and provision of bases for further reform.

Liberalization and Benefits

Under the conditions of the administrative-command system of economic activity, information that had to be analyzed was inaccessible to a wide group of domestic specialists. Only Western sources published the estimates made by their experts of the amounts of our losses in the sphere of petroleum export, which were caused, in their opinion, by the insufficient flexibility of the foreign economic policy. For example, according to the data of the NATO Economic Directorate, at the end of the 1980's the former USSR had a shortfall of 15-20 percent in export receipts for operations with petroleum and petroleum products which constituted

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about $4 billion a year. To this one could add the losses from inefficient use of petroleum dollars in the Soviet economy, but even the Western experts did not attempt to estimate these sums.

1992 was marked in Russia by widescale liberalization of foreign economic activity. Anyone who was not trading in oil at that time must have been lazy. According to the incomplete data fleetingly glimpsed on the pages of the press, over 120 organizations, private companies and joint ventures obtained the right to sell petroleum and the products of its refining to countries abroad. Competition among Russian black market sellers was strained to the limit. Under conditions of complete anarchy, one might say, the number of dumping and uncontrolled transactions increased in geometrical progression. The price for Russian petroleum dropped by almost 20 percent, but the export volume remained at a record low level — 65 million tonnes a year. The black market flourished: according to the estimates of the American G. Guardiano Foundation, up to 40 percent of the petroleum exported from Russia passed through its channels.

It was precisely then that the practice of exemption from paying export duties became widespread. In addition to professional trading companies, many regional administrations, state structures and various public organizations made use of this.

On the whole, according to the data of the Economic Crime Main Administration of the Russian MVD, 67 percent of the exported petroleum was exempt from export duties, which deprived the budget of about $2 billion in receipts every year. It became obvious that there was an urgent need to put affairs into order in the sphere of petroleum and petroleum products.

Special Exporters and Corruption

In 1993, the institution of special exporters, who proposed to single out the most experienced trading companies (traders) and grant them the exclusive right to carry out foreign trade operations with petroleum and petroleum products, went into action in the country with full force. This made it possible to increase the volume of petroleum export to 80 million tonnes a year, to raise its price somewhat (a price which, true, continued to remain 10-13 percent lower than the world level), and to finish working out a mechanism for monitoring the receipts of currency funds into the country — the increase in currency receipts to the budget, for example, in the first quarter of 1993, was twice that of the increase in the export volume.

The number of special exporters, however, remained excessive — 50 components. As before, they competed not so much with foreign companies as among themselves. The mechanism for granting privileges on export duties remained, but the amount of the shortfall to the budget dropped to $1.3 billion. True, the existence of these privileges might also to a certain extent have stemmed from the inordinate intensification of the tax pressure.

In the opinion of a group of independent experts affiliated with the RF Ministry of Economics, who had researched the tax and duty conditions in Russia in the petroleum sector for joint ventures (the Russian companies were not in the best position), these conditions "destroyed the economic bases of activity of the enterprises, and the export duty had the most unfavorable effect." According to their calculations, the production cost, including taxes, reached $96 per tonne of petroleum, while its price during that period was $100 per tonne. (The profitability of analogous work in the United States is estimated at 15-20 percent, and in Kazakhstan — 30-35 percent.)

In exempting the special exporters from paying export duties, therefore, the Russian government made it possible for the national producers of petroleum, strangling in the noose of a crisis of non-payments, to make ends meet, and maintained acceptable conditions for the functioning of foreign capital, which brought in not only additional investments, but also up-to-date and ecologically safe technology.

1994 was characterized by a decrease in the number of special exporters to 14 organizations. Petroleum export increased to 91 million tonnes a year, and the price for Russian petroleum was 99 percent of the world price. One might consider that there had taken place a crystallization of the most efficient companies, which responsibly and with awareness of national interests, represented Russian producers on world markets. In addition, in this period the process of privatizing and restructuring the petroleum sector was proceeding with great difficulty: a number of companies were formed as fully integrated on the vertical (capable of carrying out the entire cycle of operations, from prospecting and extracting petroleum to selling the petroleum products directly to the consumers), and others still have to accomplish this. Under these conditions, the existence of trade export-companies, mediating the mechanism of business connections between Russian and foreign subjects, was inevitable.

It is obvious, however, that the institution of special exporters was not devoid of shortcomings. The main shortcoming lay in the fact that potentials for corruption were preserved. After all, Russian traders were accumulating experience in work on international markets, in the expression of representatives of the Russian MVES [Ministry of Foreign Economic Relations], not by the

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day, but by the hour. And it was very difficult to select, in their midst, the most competent, even with a large set of criteria, which might serve as the basis for the dishonest competition and prejudice on the part of the officials. Nevertheless, one cannot help but admit that the institution of special exporters played its own positive role in the matter of regulating the export of petroleum and petroleum products.

SONEK — a Promising Competitor for OPEC

At the end of 1994, the basic Russian producers and exporters, with the most active interested participation of the RF MVES, created a sectorial association — the Union of Petroleum Exporters (SONEK), admission to which was open to all components of the petroleum sector. The conditions were therefore created for abolishing the institution of special exporters, which was done by decision of the government at the beginning of 1995. This decision expressed clear understanding of the fact that continuation of reforms in Russia and the country's movement along the path of integration into the world economy was impossible without civilized forms of cooperation and the formation of new mechanisms for economic activity. All the functions concerning the export of petroleum, which the MVES formerly possessed, were therefore now transferred to the Union of Petroleum Exporters. It is SONEK which determines who is worthy of the right to export petroleum and petroleum products. For a Western partner, membership in a Russian company in the Union is a unique certification of quality.

The creation of SONEK realized the practice, used throughout the world, of regulating the export of strategic goods. Today, in Japan for example, there are over 100 export cartels, in Germany — about 30, and in the United States, approximately 20.

The creation of Russia's SONEK attracted the attention of Western business circles, which were already beginning to talk about it as a potential competitor of OPEC. It is obvious that on the world petroleum market, where American and West European transnational petroleum companies predominate, to put it mildly, they are perceiving with caution a new active person, ready to defend Russia's national interests. Nevertheless, they are ready to reckon with this agent, since he is fully inscribed in the system of the world market of economic activity.

And so, in three years of reforms in the sphere of exporting petroleum and petroleum products, we have come to the point where Russian companies have proved to be in a condition to compete on world markets with the leading monopolies of the Western countries. So is it worth giving up the results achieved and returning, after the usual break, to rigid centralization?

***Protocol on Delivery of Oil in Exchange for Cuban Sugar Signed**

954E0938A Moscow KOMMERSANT-DAILY in Russian 5 May 95 p 2

[Article by Vadim Bardin and Konstantin Levin: "Cuba Will Make Russian Life Sweeter: the Oil-Sugar Deal"]

[FBIS Translated Text] **The protracted struggle surrounding alternative ways for reducing the forecast shortage of sugar in Russia, it seems, has ended. In any event, yesterday, Russian Deputy Prime Minister and Minister of Foreign Economic Relations Oleg Davydov and Cuban Minister of Foreign Trade Ricardo Cabrisas signed a protocol which provides, in particular, for an exchange of 3 million metric tons of Russian oil for 1 million metric tons of Cuban raw sugar.**

The intrigue surrounding the deliveries of sugar to Russia, which was made public after the recent article by the general manager of Alfa-Eko [Alpha-Eco], Aleksandr Fayn, consists of the selection of a version of an exchange of oil for sugar. Although taken for the basis from the very start was a plan for a Russian-Cuban deal — 3 million metric tons of oil for 1 million metric tons of raw sugar, various candidates were tried out for the role of the specific participants in the transaction. Variations of a competition to reduce these candidates for the performers approved for the role were also evaluated in various ways.

You would think that the selection of the decision is a purely technical matter. But, in one way or another, all the leaders of the Russian government (not just Oleg Davydov, but also both first deputy prime ministers, Oleg Soskovets and Anatoliy Chubays), the Duma's committees on international affairs, on security, on industry and on economic policy, the MID [Ministry of Foreign Affairs] and, supposedly, the president himself took a hand in the oil-sugar deal. The Russian-Cuban barter which triumphed in the end was viewed from the very start as the most likely one. However, a similar 1994 deal proved, in fact, to be a failure: last year, Russia received 660,000 metric tons of Cuban sugar. In accordance with the 1994 protocol, Cuba was ready to deliver another 240,000 metric tons, however, the Russian side or more precisely, AO MES [Joint-Stock Company MES], did not entirely fulfill its oil-delivery obligation. Lessons, it is true, extremely timely ones, were immediately learned: Oleg Davydov declared that Cuba no longer had the sugar and that the barter exchange of oil for sugar is financially

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not efficient. Alternative versions began to be studied. With Anatoliy Chubays' support, it was proposed that commercial structures be offered on a competitive basis state guarantees for the exporting of 3 million metric tons of oil and the purchasing of 1 million metric tons of raw sugar in the world market. At the same time, AO Alfa-Eko was hoping to win the competition.

[Boxed material follows]

The Basic Terms of the 1995 Russian-Cuban Protocol

In 1995 and the first quarter of 1996, **Russia** will deliver around **3 million metric tons of oil. Cuba** will deliver around **1 million metric tons of raw sugar.**

Over the course of 30 days from the date of signing, the organizations which will execute the protocol will be determined.

Contracts for the deliveries of the commodities and the rendering of services will be concluded between the protocol's executors at the current prices of the main world markets.

In the event it is established as fact that there has been a violation of the principle of balance and keeping in mind that the oil deliveries outpace the corresponding sugar deliveries by 30 days, suspensions of the fulfillment of the barter deal are possible. [End of boxed material]

However, the Ministry of Foreign Affairs, the Duma and Oleg Soskovets recalled that it is shortsighted, at the least, to cross out Russian-Cuban relations. The sides returned to the initial positions. Oleg Davydov, as usual, changed his viewpoint to the opposite one and noted the "necessity of this step." At the same time, by way of substantiation, the deputy prime minister quoted KOMMERSANT-DAILY, stating that, without the Cuban deliveries, the shortage of sugar in the Russian market will amount to 2 million metric tons (these are precisely the estimates we gave on 5 April). To be fair, it must be stated that not only did Davydov change his position, but the former lobbyists for purchasing sugar not from Cuba, but rather, in the free market, also did an about-face. AO Alfa-Eko's demarche was "anti-Cuban" only at first glance. In essence, Alfa-Eko, already possessing oil supplies and being a mere trader, was attempting to latch onto an oil pipeline. Now this company will certainly take part in the competition for the right to exchange Russian oil for Cuban sugar. A typical detail is: the confusion surrounding Cuba until the very end of the situation led to the fact that, according to information from the government, even yesterday, the Cabinet of Ministers' decision approving the Russian-Cuban barter had not been passed, so that Oleg Davydov, in signing the protocol, had taken upon himself a certain risk. The conditions for the competition among the potential protocol executors from the Russian side had also not been stipulated decisively. All the i's are supposed to dotted before the end of May. Judging by last year, it has not been precluded that there will be twin competitions: for the right to export the oil (under the patronage of the Mintopenergo [Ministry of Fuel and Power Engineering]) and for the right to purchase the raw shugar (under the patronage of the Minselkhozprod [Ministry of Agricultural Production]). Most likely, they will be restricted.

The time left for the implementation of the intergovernmental Russian-Cuban protocol on the commodity turnover and payments for 1995 is short — in fact, after the execution of the attendant procedures, there is around half a year. In addition, it is necessary to complete in May and June the fulfillment of the mutual deliveries not fulfilled in 1994. It seems that the breakdowns of Russian-Cuban trade deals may become traditional. It is possible to overcome the adverse trend and to optimize Russia's economic ties with Cuba, including solving the problem of the Cuban debts, by concluding long-term deals. In particular, it would be advantageous for both sides to agree to a minimum of 3 years on mutual deliveries of sugar and oil, which will make it possible for Russia to obtain Cuban raw sugar on the most advantageous financial terms.

***Director on Ukhta Oil Refinery Success During Reforms**

954E0929A Moscow KOMSOMOLSKAYA PRAVDA in Russian 28 Apr 95 p 10

[Interview with Yevgeniy Ippolitov, general director of the Ukhta Oil Refinery, conducted by Pavel Palchikov: "I Believe in Common Sense"; Ukhta, date not given]

[FBIS Translated Text] **Just a few years ago the word "competition" caused no headaches among domestic producers. They lived under the conditions of a rigid planned-administrative system and had no woes. Now, different times have come: that system has collapsed, funds and quotas have been canceled and prices have been set free. Socialist competition has departed this life, and a rigorous fight for survival has begun. As a result, a tremendous number of enterprises have found themselves defenseless in the face of the Moloch of Gaydar's "reforms." Some of them have sunk, some of them are balancing on the verge of bankruptcy and some have managed to keep afloat. The "shock therapy" did not pass over the Ukhta Oil Refinery (UNPZ). It continued to work quite stably, however, and to provide fully for the needs of the Republic of Komi and the Northwest regions of Russia for the products of its oil refining.**

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Our correspondent visited this extremely old enterprise, met with Yevgeniy Ippolitov, general director, and asked him a number of questions.

[Palchikov] Yevgeniy Vasilyevich, was it easy for UNPZ to make the transition to market rails?

[Ippolitov] When Soviet rule proclaimed its new economic course of transition from a "bright communist future" to capitalism, it frankly terrified me. After all, the directorial corps had no idea of the way it had to work in the sphere of market relations, so unusual for it. It had to quickly reshape its psychology and study the laws of the market, its working principles and the "rules of the game" in it. It organized courses for plant managers and specialists, and began to send some of them for a period of training abroad. During this time, however, because of our economic ignorance and talentless conducting of reforms in the country, we padded up our bruises and bumps on the thorny market path. It was difficult, but we provided ourselves with new business partners, and reorganized and modernized production with our own forces, and did not cling to the state's "apron-strings" nor ask our own ministry for money. We counted on our own forces and intellectual potential, and we were not mistaken.

[Palchikov] It is no secret that there are quite a few enterprises which have found themselves in a critical situation today, are cutting back production volume, have accumulated debts, have not paid wages for several months, are sending workers on enforced leave and have suspended the construction of housing and social-cultural-everyday-service facilities. How deeply has the crisis touched your collective?

[Ippolitov] We are no exception to the rule, and are feeling the pain of the economic situation that has formed. Non-payments, as well as prices for raw material, electric power and heat, are increasing and transport costs are constantly rising.... The enterprise could not avoid the production slump: the product output volume has decreased by approximately 30 percent. We have managed, however, to maintain the number of product consumers. The export of petroleum products has even increased. We are therefore left with a profit. We finished last year with a favorable balance, and earned 55 billion rubles [R] and 40 million American dollars. We did not permit any delay in paying wages. The workers today receive R600,000-700,000 a month each. Here, obviously, the high quality of our petroleum products and the steady demand for them has played an important role, and so has the introduction of the principle of pre-payment, obligatory for all purchasers. In addition, we have tried to conclude contracts with solvent partners. In 1995, the refinery workers will receive dividends amounting to over R40,000 for each preferred share of stock with a face value of R1,000. This does not at all mean, however, that we are consigning the production facility itself to oblivion. Quite the contrary: we are continuing to invest more funds into its renovation. There are also achievements on the social plane.

[Palchikov] Could you tell us in greater detail about the re-equipment and renovation of the refinery?

[Ippolitov] They were begun in 1984 and continue to this day. There is plenty of work: the enterprise was 60 years old last year, and in a short time, and moreover, with the chronic shortage of working capital, it is difficult to turn an old production facility into a modern one. Nevertheless, we are trying to take at least small steps forward and to work for tomorrow. Not everything is going smoothly, of course. But despite the difficulties which constantly arise, we have succeeded in doing quite a lot.

Judge for yourself. In 1994, we spent R1.5 billion on re-equipping UNPZ. These funds were directed primarily toward increasing ecological safety, introducing advanced technology and automated control systems and installing modern equipment. We did not sit around with our hands in our laps in the earlier years, either, we did a large amount of work. We installed new K-2 and K-10 columns on the atmo-vacuum pipestill unit, replaced the pumping and heat-exchanging equipment, converted from steam to water heat supply; we replaced the energy-intensive submersible coolers and air-cooling apparatus with economic and efficient equipment. Instead of the units for thermal desalting of oil, we are using electrical analogs. We put into operation a device for the over-alkalinity of diesel fuel, and ELOU [electric desalting units] have appeared on the AT-2 unit. All this has made it possible to obtain a substantial reduction in the oil-refining costs and the production facility's need for heat. In addition, operation of a new water unit made it possible to convert the cooling of petroleum products from an open to a closed circulating system and thus eliminate ecologically harmful discharges into the Ukhta River. To avoid emergency shutdowns of the equipment because of an unexpected electric power outage, we have made a second, additional, source of power supply for the refinery.

At present we are putting in a new unit for primary processing of the oil, are intensively up-dating the fuel-raw materials inventory, and will soon begin the installation of new tanks, which will be almost two kilometers away from the main production facility. We are building two loading racks for light and dark oil products: preparatory work is in progress for the

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installation of suspended equipment at one of them and metal structures at the other. A railroad branch already extends to here. Rebuilding of a catalytic reforming unit is close to completion. As a result, its power will increase by a factor of 1.5, and then we will start, not to just sell straight-run gasoline, but to refine it completely into high-octane unleaded gasoline. In the autumn of this year we will begin the output of AI-95 gasoline. We are making energetic preparations for construction, according to a German design and with the participation of foreign specialists, of a super-modern complex, including two units: for hydrorefining diesel fuel and for recycling hydrogen sulfide gas, subsequently obtaining sulfur. The project is estimated at 30 million German marks. First we will find the money for the work, and after that we will need investments. We are inviting domestic and foreign firms, large banks and financial companies into mutually profitable cooperation, especially as the funds invested will be recovered 100-fold in two or three years.

We are working actively to replace the obsolete industrial sewerage system with efficient and compact intra-area purification structures. Putting them into operation will ensure a high degree of ecological safety. My principle is: it is better to invest sound capital today than to spend it afterwards on compensation for the harm done to people and nature. In addition, the refinery will build a biological water-purification plant for the needs of the city. Quite a lot of capital is also being invested in this. Suffice to say, last year alone, R4.2 billion was spent to put its third section into operation.

[Palchikov] Yevgeniy Vasilyevich, does it not seem to you that all the measures that the refinery — a patriarch of the oil refining industry — has undertaken in the last few years are in their own way just an application of cosmetics on its old face? What is being done to bring the enterprise to a high level of profitability?

[Ippolitov] I feel that during the period of perestroyka we did everything in our power. We could not have found more money. The actions of the UNPZ administration were in most cases correct, and kept it from falling to the bottom of a financial abyss. I will tell you in greater detail about the prospects for the future.

At the request of the plant management, the American firm, Lumus, made a technical-economic substantiation of a program of radical renovation of the production facility. The foreign specialists made a very careful study of the potentials of domestic and foreign markets and the basic trends in the development of the region, and evaluated a number of economic and other factors. On the basis of the results obtained, they created a program for re-equipping the enterprise and introducing 21st-century technology. The estimated cost of the project was about $800 million. This plan attracted particular attention from the participants in an international investment exhibition held recently in San Francisco. Today we are already receiving concrete offers to put it into action, and a competent commission will decide to whom we give our preference. We are ready to listen to all those who offer advantageous conditions and a guarantee of executing the order on the highest level.

We now have a promising plan, worked out by a well-known American firm, for construction of a complex for deep-refining oil. We need more financial investments for it. Repeated appeals to foreign investors have so far yielded no results. They are afraid of the unstable political and economic situation in the country, and of Russian legislative unpredictability. It turns out to be a paradoxical situation: the firms have a large amount of capital, but have virtually no desire to invest it in a quite rapid-investment-recoverable, high-profitability production facility under the present circumstances. They say frankly: "Your law on investments is obsolete and the law on foreign economic activity is unacceptable: why should we take the risk?" I therefore wish, on behalf of the entire directorial body, to appeal to the "lord legislators": whether or not the Russian economy becomes attractive to foreign businessmen and firms depends in many ways on you. I should like very much for domestic investors not to live for immediate profit, but to invest money in long-term programs. I hope that my voice will be heard. UNPZ has so far been investing mainly its own funds in renovation. Although it should be emphasized that the government of the Republic of Komi responded to our requests, and in the first six months allocated the refinery R4.9 billion for this purpose. On the whole, though, we are planning to spend about R21 billion in 1995 on modernizing and re-equipping the enterprise.

[Palchikov] Oil companies have begun to spring up one after the other in various regions of the country, by presidential edict. The aim is to link the extraction, raw material refining and sale of the finished product by a single thread, to help the enterprises included in it to work normally and profitably, and to solve the most urgent financial-economic problems. Komi TEK sprang up in your region in October of last year. Is it capable of rendering assistance to UNPZ in achieving its immediate tasks?

[Ippolitov] Unfortunately, the hopes for financial and other possibilities of Komi TEK are quite slim today: two enterprises out of the three that are included in it cannot boast of any success. The company is in the difficult, sometimes contradictory process of getting established. It does not yet have any clear-cut program

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of activity. One wants to believe that its management is planning its work so as in no way to encroach on the rights and interests of its members or deprive them of a being a legal person or of economic independence. We run a certain risk of turning from a profitable enterprise into an unprofitable one.... There is an urgent need to turn to the experience accumulated in this country and abroad and draw up precise, clear documents controlling and regulating the interrelations of members of the company, among themselves and also with the management. I believe in common sense and in the expediency and promising nature of the next steps of the Komi TEK administration. I also want to caution it against hasty and ill-considered, but decisive actions: it must not permit a shutdown of the mechanism which it has at least in some way started up. The plant must not be forced to "run," defeated by economic squabbling. When the main reasons for the sickness have been eliminated, the need will then arise to follow a course of rehabilitation. Today, however, the enterprise faces the danger of losing its independence. I am sure that you cannot force with a whip a collective which is receiving fairly good, steady wages to pull the cart of a new company that is still wandering in the darkness. The plant workers do not realize it, but the municipal budget is simply coming apart at the seams.

[Palchikov] The constant development of the production facility and the social sphere requires a daily search for efficient ways of solving the problems that arise for the enterprise and for new methods of work. Is that not so?

[Ippolitov] Quite correct. For example, we set up a Russian-Cypriot enterprise, Ukhtoyl, which very soon began to bring in a real profit. Today it is being intensively developed, and the problem of refining oil sludge without violating ecology is being successfully solved. The joint venture has now purchased, in the West, highly efficient technology and an automated line to separate the sludge by centrifuge. Funds are needed for its installation and running-in. I am sure that we will find people and firms which will assist Ukhtoyl, and that they will subsequently have a stable, guaranteed profit from this.

In addition, the refinery has founded a Russian-British Joint Stock Company, Bitran. It is possible that it will be the only enterprise in Russia producing high-quality transformer and medicinal oils from the heavy, low-paraffinicity oil of the Yaregskoye deposit. Today, Bitran is producing road asphalt, unique in its properties and characteristics and meeting the requirements of world standards, as well as special grades of bitumen. The latter are extremely necessary for the paint-varnish and industrial rubber industries. The firm is now installing the first automated bitumen cooling and filling line in the country.

[Palchikov] I can now understand your production difficulties and problems. But what is being done on the social-everyday-service plane?

[Ippolitov] The plant's management has always felt that their workers should be provided conditions for living, leisure and health which would create a good mood and contribute to increased labor productivity. That is why we are investing large funds in the construction of housing and social-everyday-service facilities. In 1995 we plan to direct R9 billion for this purpose, and in particular, we are putting into operation over 3,500 square meters of housing area. The enterprise is presently erecting five apartment houses.

The first European-level, 80-bed sanatorium-dispensary rest home, Krokhal, was accepted in February of this year. It was turn-key-built by Yugoslavian specialists from the firm Cyvas General Trade Ltd, and equipped with the latest innovations of leading Western firms producing medical equipment. The potentials of the medical-fitness institution are such that it is ready to accept guests from the Republic of Komi, the North and other regions of Russia and the near and far abroad. A good helper of the collective is the plant's subsidiary farm: two greenhouses, a hog-house and a cow barn. Its products arrive regularly at the dining hall and are sold to workers and employees at moderate prices.

[Palchikov] Yevgeniy Vasilyevich, have you not put too great a burden on the shoulders of the enterprise? Is this not a hindrance to carrying out the existing production plans?

[Ippolitov] It is, of course, a great load. But we will not give up housing construction or putting into operation the second section of the sanatorium-dispensary. Every plant worker should have a good apartment and the opportunity, when necessary, to have a medical examination and obtain skilled treatment.

As for the production plans, with the aid of our own forces and resources and domestic and foreign investors, they will be fulfilled. Business partners will finally realize that investing capital in the future revival of the plant is both prestigious and reliable, especially since it has quite a high image in the domestic oil-refining sector and abroad. It is not by chance that in 1994 it was awarded the Golden Globe International Prize of the Vostok Development Foundation, for active participation in establishing Russia's economy, integration into the world economy and the output of high-quality products.

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International Affairs

*SOTSIS-Gallup Poll Compares Russian, Ukrainian Quality of Life

954K0579B Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 27 Apr 95 p 1

[Article by Candidate of Historical Sciences Oleksandr Stehniy, lead academic associate of Sotsis-Gallup, under the rubric "SOTSIS-Gallup —DEMOKRATYCHNA UKRAYINA": "Ukraine—Russia: Where is it Better?"]

[FBIS Translated Text] The SOTSIS-Gallup sociological service in Ukraine has conducted its latest nationwide polling, the results of which are representative of the adult population. Some 1,200 people in all were polled in all regions of Ukraine.

The opinions of those polled were split almost in half in evaluating the overall situation in both states. Whereas the situation in Russia as a whole was worse than in Ukraine for 26 percent, 23 percent hold the opposite opinion. The overall situation was the same in both countries for a third of those polled. It is worth noting that one out of five respondents were not able to express themselves on this score.

The standard of living in Russia is higher than the corresponding value for Ukraine, in the opinion of a majority of the respondents (59 percent). Only six percent felt that it is better to live in Ukraine. A logical continuation of this is the fact that in the opinion of half of those polled, Russia is doing a better job of instituting economic reforms, and more than a third (35 percent) indicated a preference for Russia in the sphere of social protections for the population. Three to six percent held the opposing viewpoint.

There are aspects of social life, however, where Ukraine is stronger. A majority (56 percent) feel, in particular, that the situation in the sphere of ethnic relations is worse in Russia. The threat of social tensions in Russia is higher than in Ukraine for 42 percent of those polled.

It is natural that in view of the bloodshed in Chechnya, 38 percent of those polled feel that the chances of Ukraine look better than those of Russia in the matter of preserving national unity.

And, finally, the opinions of the respondents were split evenly in their assessment of the foreign policy of both nations—22 percent gave preference to Russia, and the same percentage deemed the positions of Ukraine to be better.

*Ukraine-Cuba Economic Relations Viewed

954K0579A Kiev EKONOMIKA UKRAYINY in Ukrainian Apr 95 No 4, pp 77-81

[Article by V. Voronin, head of the Department of Regional Problems and Bilateral Collaboration of the Administration of the President of Ukraine: "Ukrainian-Cuban Economic Relations in 1991-94"]

[FBIS Translated Text] Cuba was one of the first countries in Latin America that recognized the independence of the Ukrainian state, on 6 December 1991. The legal basis for collaboration in various spheres of economics and politics was laid down over a comparatively short period of time. A Treaty on Trade and Collaboration was signed in Kiev at the initiative of the Cubans on 20 December 1991, even before the establishment of diplomatic relations. Both sides agreed in it to grant each other most favored status with regard to the movement of goods and other forms of economic ties. The parties also agreed, after the establishment of official diplomatic relations, to develop and review drafts of bilateral treaties on maritime navigation, non-trade payments and aviation servicing. It was also emphasized that real opportunities exist in both countries for economic collaboration in the sugar industry, medicine, the training of Cuban pilots for civil aviation, the use of Ukrainian specialists to perform geological exploration in Cuba, the exchange of goods, political contacts with international organizations etc.

A protocol establishing diplomatic relations between Ukraine and the Republic of Cuba was signed in Kiev on 12 March 1992, and it made the political and economic relations of both countries more active. The Republic of Cuba has its own diplomatic missions in Ukraine—an embassy in Kiev and a general consulate in Odessa. The Ukrainian embassy has been operating in Havana since September 1993, with its official opening on 22 February 1994. President of Ukraine L.M. Kravchuk sent a letter of greeting to Chairman of the State Council of Cuba Fidel Castro on that occasion. A Treaty on Collaboration of the Cities of Kiev and Havana was signed in Havana on 23 February 1994.

Kiev has constantly demonstrated to the Ukrainians a desire to renew the trade and economic relations that had developed over three decades and the granting of technical assistance to Cuba by Ukraine, especially in the sugar industry, the military sphere and the training of Cuban specialists. Cuba was the first country that, regardless of the difficult economic situation, accepted and continues to accept for treatment Ukrainian children who were stricken as a consequence of the Chornobyl catastrophe.

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Ukraine provides Cuba with humanitarian assistance. An official transfer of humanitarian aid in the amount of 1,600,000 dollars (200 tonnes of dried milk, 500,000 cans of meat, 10,000 tonnes of carbamide and more than 33 tonnes of medicines) took place at the Embassy of Ukraine in Havana on 13 April 1994.

An official government delegation of the Republic of Cuba headed by Vice President of the Council of Ministers Lionel Soto made a fraternal visit to Ukraine on 27-29 June 1994. Meetings and negotiations were held during the visit with President of Ukraine L. Kuchma, Chairman of the Supreme Soviet O. Moroz, Prime Minister V. Masol, and the ministers of foreign affairs and foreign economic relations. Intergovernmental agreements were signed as a result of negotiations on collaboration in the spheres of culture, education and science, the creation of an intergovernmental commission on questions of trade, economic, scientific and technical collaboration, and on maritime trade navigation between the two countries. An international agreement on air connections was initialed on 14 September 1994 during a working visit to Ukraine of a government delegation of the Republic of Cuba headed by President of the Institute of Civil Aviation General R. Asevedo. New supports have thus been laid in the legal foundation of Ukrainian-Cuban relations that will undoubtedly foster a further expansion and strengthening in them.

Cultural relations between Cuba and Ukraine are also beginning to move up to a new stage. The "Ukraine-Cuba" and "Cuba-Ukraine" fraternal societies have been created and are functioning. Ukrainian Days were held in Cuba in October 1993, and were very successful. Preparations are underway for Cuban Days in Ukraine.

Both countries are pursuing a considered and loyal policy with regard to each other in the international arena. Ukraine refrains from criticism of the Cuban regime and the policy of human rights in Cuba at various international organizations. Cuba also demonstrates loyalty to Ukraine, both in the international arena and in the mass media in Cuba. Ukraine supported the draft of a Cuban resolution for a cessation of the American blockade of Cuba during the voting in October 1994 at the 49th session of the UN General Assembly.

Three years are a historically brief time in the establishment and development of new political relations between Ukraine and Cuba. What has been done, of course, still does not meet the growing needs of both countries. The new trend, however, is toward the building of bilateral relations on a truly equal, mutually advantageous and non-ideological basis, gradually opening the way to the benefit of both peoples and the world as a whole, and to progress.

The worsening of economic and social problems is forcing both Ukraine and Cuba to pursue a foreign economic policy that would first promote bringing the national economies out of crisis, lift productive forces and production relations to a new stage of progress, and raise the standard of living of the popular masses. A good fit between problems and goals is the factor that makes it necessary to develop economic relations between Ukraine and Cuba on a fundamentally new basis and at a new level.

The trade and economic relations that Ukraine and Cuba maintained for three decades within the context of the former USSR are of unprecedented significance today. Cuba is displaying an interest first and foremost in the products of the metallurgical industry, machine and instrument building, machine tools, shipbuilding, and the military industry. It is important to take into account that Ukraine has provided technical assistance in the construction and modernization of many industrial facilities in Cuba, particularly those such as the Juragua AES [nuclear power plant] (power capacity of 850 MW) and the Havana TES [thermal electric power plant] (1,300 MW). A significant portion of the installation for the modernization of the two operating nickel plants and the construction of a third at Punta Gorde, along with the expansion of a metallurgical plant (capacity of 600,000 tonnes of steel a year) and an oil refinery (three million tonnes of oil), came from Ukraine.

Collaboration between the two countries in the sugar industry is becoming a special matter, and it has developed in two directions: 1) the refining of Cuban sugar at Ukrainian enterprises; 2) the granting of technical assistance in the modernization and construction of sugar mills in Cuba (Ukraine has taken part in the construction and modernization of 135 sugar mills, which constitute some 90 percent of all operating enterprises in that sector). The Black Sea Shipping Company (ChMP), close to 50 ships of which are on Cuban routes each month, has also played an important role in Cuban-Ukrainian economic relations. The port of Illichivskyy alone has handled close to two million tonnes of cargo for Cuba each year.

The training of Cuban specialists at the educational institutions of Ukraine has been another form of collaboration. More than 6,000 specialists in various fields have been trained from 1961 through 1991. Cuba has clearly proven to be "tied" to Ukraine in these matters, and is trying to restore economic relations with it to the level that used to exist in the Soviet era.

Ukraine, however, has a vested interest in renewing economic relations with Cuba as well. It has traditionally supplied ammonia, carbamide, superphosphate and

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other fertilizers to the island along with sulfur, certain types of poisonous chemicals and anthracite. Ukraine has an interest in importing nickel, coconuts (for the production of activated charcoal), and sugar cane from Cuba. Ukraine refined from one to 2.3 million tonnes of Cuban unrefined sugar a year during Soviet times, including 2,326,000 tonnes in 1986, 2,331,000 in 1987, 1,503,000 in 1988, 2,026,000 in 1989, 1,410,000 in 1990 and 900,000 tonnes in 1991. The centralized receipt of unrefined sugar from the Republic of Cuba ceased in 1992. Taking into account the fact that sugar had become a "convertible currency" for Ukraine in its dealings with economic partners, particularly with Russia, as well as the scarcity of sugar in the country, Derzhkharchoprom [State Committee for the Food Industry] and Ukrtsukor [Ukrainian Sugar] are negotiating with the Cubans for a renewal of the shipments of unrefined sugar for refining in Ukraine on mutually profitable terms—Ukraine would be left with 20 percent of the finished product as the payment for refining it. The Ukrainians have proposed to create a joint Ukrainian-Cuban company or joint venture for the refining of 500,000—700,000 tonnes of unrefined sugar a year at first, with an increase in the refining volume in the future to two million tonnes a year. The Cubans are studying these Ukrainian proposals.

The grave economic condition of the countries, however, is impeding the successful development of Ukrainian-Cuban economic relations.

The Republic of Cuba is today experiencing a so-called "special period," which the government of the country proclaimed owing to the appreciable worsening of the economic situation in the last year; the year 1993, in the estimation of the Cubans, was the worst since the victory of the revolution on 1 January 1959. More than half of all enterprises are not operating owing to the lack of fuel. Some are only using 30—40 percent of their capacity. Just 2.2 billion dollars were received from exports in 1993. Imports decreased by almost five times from 1989 through 1993, and were 1.7 billion dollars in 1993. The harvest of the principal export crop—sugar cane—was partly accomplished using draft animals this year, there is almost no public transport functioning in the country, and the standard of living of the population has declined appreciably.

The main traditional export items—sugar, nickel, tobacco, citrus fruits, ocean products etc.—as was indicated, do not meet the country's hard-currency requirements, since 4.2 million tonnes of sugar, 40,000 tonnes of tobacco and 1.1 million tonnes of oil were produced in 1993.

Several primary reasons should be singled out in analyzing the causes of the current economic situation.

First, the loss of strong and dependable markets and the possibility of obtaining favorable credits and large amounts of unpaid assistance from the European countries of the former socialist camp, and the forced actions to re-orient ties to other countries and regions.

Second, the sharp decline in prices in the world market for the main export goods of Cuba—sugar and nickel (by six times over 20 years and by three times over five years respectively), and the appreciable rise in prices for oil, machine-building products and spare parts. To this must be added the many years of blockading Cuba by the United States, and the significant quantity of natural disasters that the country has experienced in recent years.

U.S. dollars have been circulating freely in Cuba since 1993, about 150 professions have been permitted to engage in private activity, additional rights have been granted to the peasants, the process of the commercialization of the activity of state enterprises continues, and joint-stock companies are being created.

Sugar production totaled 4.2—4.3 million tonnes in 1994 according to preliminary data, and 40,000 tonnes of tobacco and 500,000 tonnes of citrus fruits were harvested. A significant increase in the exports of scientifically sophisticated products is being planned, first and foremost in the fields of medicine, biotechnology, genetic engineering, and medical equipment. The area of science has been designated a priority one in Cuba.

International tourism is developing at a rapid pace, and has already become second to sugar as a source of hard currency revenues. The number of foreign tourists has doubled over the last four years and reached about 850,000 people in 1994, which provided currency receipts of approximately 900 million dollars.

An "open door policy" has been proclaimed in Cuba to attract foreign capital, more than 500 foreign firms have opened offices in the country and close to 100 joint ventures have been created, with a trend toward increasing numbers of them.

Canadian and French firms are carrying out oil exploration activities in Cuba on terms of economic risk. A Canadian firm recently found oil whose quantity and quality could have commercial significance. Five to six years will be required for a complete evaluation of the field and the development of production, but it could facilitate the receipt of foreign credit.

Numerous groups of businessmen, including from the United States, who want to go into business here and

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express the opinion that the U.S. blockade of Cuba will soon be lifted have been visiting the country frequently of late, according to the Chamber of Commerce of Cuba.

The fact that interest is "awakening" in a renewal of collaboration with Cuba on the part of some Eastern European countries is also of interest. Russia, Romania, Slovakia and Bulgaria in particular have already taken definite steps in that direction. The arrival of an economic delegation from Hungary is expected for the signing of a trade and economic treaty.

Western European countries, including Spain, Germany, France, Holland and Great Britain, are also displaying an interest in Cuba.

An international seminar with the participation of prominent British specialists and members of the Cuban government on investment opportunities in the country's economy is planned to be held in Havana in the near future, sponsored by the Embassy of Great Britain.

Domestic steps are also being taken, aside from the attraction of foreign investment, to revive the economy and improve the management of the national economy. The number of central bodies of state administration was reduced to 16 on 24 April 1994 under Law No. 147, "The Re-Organization of the Central Bodies of State Administration," and types of state administration such as state committees, national commissions and national offices were abolished altogether. A decree was passed in May of last year at a session of the National Assembly of State Power in which the implementation of essential measures promoting an improvement in the economic situation was projected. They envisage a rise in prices and rates for tobacco, alcoholic beverages, food, transport, electricity, telephones, water supply and automobile fuel. State subsidies to cover the expenditures of state enterprises are being reduced.

One of the most difficult problems is the provision of food to the population. Currency stores have become an important source for obtaining these products since the liberalization of the dollar. The prices in those stores in U.S. dollars for one kilogram of a product are approximately as follows: 1.10—1.30 for white bread; 8.00—9.00 for butter; 9.00—12.00 for cheese; 9.00 for an apple; 10.00—20.00 for meat; and 12.00—25.00 for sausage. Gasoline costs 0.90—1.10 dollars a liter in Havana. Havana, according to statistics, is seventeenth among 148 cities in the 118 most expensive countries in the world in which to live.

Other measures are also planned in Cuba, in particular to improve the system of currency regulation, strengthen monitoring of the fulfillment of prevailing laws and fight violators of the law.

The government of Ukraine is instituting similar measures at the same time. A program of fundamental reforms proposed by President L. Kuchma envisages a gradual transition to a market economy. The concentration of forces and funds in central sectors of the economic breakthrough makes economic relations with Cuba secondary for Ukraine, but that in no way signifies that those relations are being ignored. Sooner the reverse—after the signing of the appropriate treaties in 1994, which laid the legal foundation for collaboration, those relations are beginning to be resurrected and hold future promise.

Ukrainian and Cuban geologists have no few opportunities for joint work. Ukrainian specialists—petroleum geologists, surveyors, geophysicists and drillers—are well known in Cuba. That country has a vested interest today in collaboration with Ukraine in the prospecting and exploration of oil fields. The Cubans have designated almost 20 sites (units) for geological exploration, including offshore. There are also prospects for the discovery of fields of lead, zinc, and copper etc. Ukrainian specialists could perform geological exploration work in Cuba in such fields as scientific forecasting, the prospecting and survey of oil and gas fields, regional geological research and the compilation of geological maps, forecasting, prospecting and exploration of mineral fields and underground waters, the development and improvement of technologies for the refining and enrichment of raw minerals, and the supply of geophysical apparatus and instruments. Ukraine could perform certain services therein on advantageous terms for Cuba—through joint ventures with the participation of Ukrainian specialists in the work of Cuban geological enterprises. The Cubans are now studying Ukrainian proposals.

The state of the foreign trade of Ukraine and Cuba is typified by the following indicators. The trade and economic relations between Ukraine and Cuba, according to data from the Ministry of Statistics of Ukraine (see Tables 1 and 2), totaled 43,464,500 dollars in 1993, including 5,441,600 dollars of exports (7.5 percent of all exports to Latin America) and 38,022,900 dollars of imports (30.5 percent of imports from Latin America), with a net balance of 32,581,300 dollars. Predominating in the exports were:

—nitrogen, mineral or chemical fertilizers, 49.9 percent;

—mechanical machinery and equipment, 7.6 percent;

—water transport services, 31.7 percent;

—cargo handling services, 5.3 percent (of the overall volume of goods and services).

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Table 1 - Data of the Ministry of Statistics of Ukraine for 1993 (000 dollars)

	Total	in goods	in services
Foreign trade turnover	43546.5	38162.8	5301.7
Exports	5441.6	3422.9	2018.7
Imports	38022.9	34739.9	3283.0
Net balance	-32581.3	-31317.0	-1264.3

Table 2 - Goods Export Patterns for 1993

Export	000 dollars	Proportionate share, %
Nitrogen, mineral or chemical fertilizers	2718.0	79.4
Mechanical machinery and equipment	410.9	12.0

Consumer goods, pilot services and water transport predominated in the pattern of imports.

There were three joint ventures registered in Ukraine as of 1 January 1994: MIEIT (Russia—Cuba—Ukraine, Kharkiv Oblast), Lybid-Inter (Cuba—Ukraine, Kiev), and Safra (Cuba—Ukraine, Kiev).

The goods turnover for 1994 is typified by the following data from the Ministry of Statistics of Ukraine:

Foreign trade:

Turnover - 2,340,800 dollars;

Exports - 2,334,500 dollars;
Imports - 6,300 dollars;
Net balance - +2,328,200 dollars.

These data demonstrate that the overall state of trade and economic relations between Ukraine and Cuba does not meet growing demands and does not satisfy the requirements of both countries. Their further expansion depends to a certain extent on the concrete policies of the governments of Ukraine and Cuba. The following conclusions may be drawn from an analysis of the state of those relations in 1991-94:

1) The process of the emergence of new bilateral relations that are equal, mutually advantageous and non-ideological is arising and developing;

2) Ukrainian-Cuban relations, as a part of the policy of Ukraine toward the countries of Latin America, are providing an impetus to the new geopolicy of Ukraine.

3) Although Ukrainian-Cuban relations still do not meet the increased demands of the times, the trend of their development and expansion is prominent and definite.

4) The state of relations between Ukraine and Cuba determines a whole series of factors of both an objective and a subjective nature. We cite as positive factors the amount and cumulative experience of relations in the past period, the dependence of both countries on mutual deliveries and mutual support, and the search for new markets for emerging from crisis. The negative factors are those such as the selection by the countries of different models of development, the national crisis in both countries, the varying geopolitical thrust of foreign-policy priorities, and the lack of an appropriate mechanism for bilateral ties. The interrelationship of these factors will also define the state of Ukrainian-Cuban relations for a certain time.

5) It should be noted, in characterizing the relations between both countries in various spheres, that:

—the political relations between Ukraine and Cuba do not meet the requirements of the times, and they must be expanded considerably;

—the economic relations between both countries must be directed toward restoring their volume to the level that was achieved in the Soviet era;

—the contacts in the humanitarian sphere should be regenerated into stable relations between the peoples of Ukraine and Cuba. Ukrainian-Cuban relations have a future, since they are determined by historical experience from the past and the objective requirements of the present.

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National Affairs

*Minister Details Press Support Measures

954F2156A Kiev PRAVDA in Russian 14 Apr 95 p 2

[Interview with Mikhail Onufriychuk, press and information affairs minister, by Irina Gavrilova under "Actual Interview" rubric; place and date not given: "The Press Under a Press?"]

[FBIS Translated Text] **Somehow a myth has developed that we are the most well read country in the world. People have practically stopped subscribing to newspapers. With all the books on the market, we are buying fewer and fewer books. How can we when all our money is going to just staying alive? To all appearances, textbooks are becoming a relic, and soon lessons will be given, as in old times, orally. Libraries are being closed temporarily—although there is nothing more constant than temporary—and bookstores are being refurbished for other uses.**

So what kind of a time is this for Ukrainian books and newspapers? That is the subject of our conversation with Mikhail ONUFRIYCHUK, head of the Ministry for Press and Information Affairs, which was created quite recently—four months ago—by order of the Ukrainian president.

[Gavrilova] Mikhail Yakovlevich, today all the mass media is talking about is the decree of 28 February 1995 signed by Leonid Kuchma on the State Program for the Development of the Press and Book Publishing for the Period Until the Year 2000. Let us begin our conversation with this: What made it necessary to create the program and what are its main goals?

[Onufriychuk] First of all is the anxiety felt on the part of the Press and Information Affairs Ministry [Minpressinform] concerning the situation that has developed lately in publishing. As a result of the liberation of Ukrainian book publishing and the press, there is a steadily growing tendency in the country toward a significant increase in publishing houses, publishing organizations that produce book products, and periodicals. Today, nearly 750 book publishers, arranged according to various forms of property, 17 newspaper-magazine concerns, over 3,000 magazines, 550 printing enterprises, 40 oblast and city enterprises managing the distribution of books, and almost 1,000 book stores are part of this complex in Ukraine. (For comparison, in 1990 there were only 23 state publishing houses and four creative union publishing houses responsible for the publication of books for general consumption.)

Despite the sharp increase in the number of firms wishing to engage in publishing, the drop in the production of written materials continues, while the structure of book publishing itself is more and more deformed. Specifically, there have been cuts in the publication of books of social and cultural significance, including children's books, scientific materials, encyclopedias, textbooks, and technical literature. The number of works by contemporary Ukrainian and foreign authors, as well as Ukrainian and foreign classics, being printed is greatly reduced, and publications dealing with the fine arts, regional studies, and tourism are practically nonexistent, depriving us of the opportunity to partake in universal human values in the worldwide system of culture.

[Gavrilova] People say that textbook publication is in big trouble. It this true?

[Onufriychuk] Definitely. The situation concerning the output of textbooks is critical, and for this reason, one of the main tasks of our publishing policy should be the creation, preparation, and publication of school literature—textbooks, instructive-methodological texts, handbooks, and books from the "Shkolnaya biblioteka" ["School Library"] series, which are extremely important in providing a good education. Creating conditions that would make it possible to publish books and periodicals in the languages of the national minorities residing in Ukraine—Crimean Tatars, Jews, Germans, Greeks, Moldovans, Bulgarians, Hungarians—is of special significance, as well as an entire set of actions aimed at resolving problems related to the preparation and publication of national textbooks for universities and vocational schools, which until recently were brought in from Russia.

The fact that in 1993 in Ukraine only 2.8 books were published per resident—where the required number is 12-14, as it is in the developed European countries—is also frightening. Also obvious and no less frightening is the tendency toward the de-Ukrainization of national book publishing.

The periodical situation is extremely complicated. On the one hand, the number of written mass media is growing steadily: now over 3,000 are registered, including 2,200 newspapers and over 400 magazines. More than 1,000 periodicals are aimed at the country-wide, regional and foreign audience. You can see yourself how the thematic palette of newspapers and magazines is expanding and how structural changes and an ideological reorientation are occurring in that field, but at the same time there is a sharp drop in periodical circulation. Subscription circulation for newspapers and magazines dropped from 63.7 million in 1992 to 14.7 million in 1994; that is, by 4.5 times. That means the press' informational space has narrowed; its impact on people has lessened.

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The language situation must also concern us. Of the 400 newspapers aimed at the Ukrainian audience, 103 publications are written in Ukrainian (just 25 percent).

[Gavrilova] It would probably take an awful lot of money to solve all these problems. Where are you planning to get it?

[Onufriychuk] For now we do not have the "key to the apartment where the money is" [refers to "The Twelve Chairs" by Ilf and Petrov]. Nothing more than intelligent economic policy will allow us to redistribute funds, to use them efficiently. There are plans to improve the system that manages the publishing industry so that it can put state ideas in the field of book publishing and the press into practice, implement effective regulation based on legislation, bear responsibility for the situation in that branch of industry, and create conditions favorable for the development of all forms of property and ownership.

Of special significance in developing the publishing industry in Ukraine is the implementation of a policy that would reform property forms. The program is based on the idea that total privatization in the creation, publication, and distribution of written publications—in that part of the culture and the economy—is simply impermissible. It proposes determining and approving a list of the chief book-publishing facilities which would not be subject to privatization, while some of the enterprises and organizations are, in fact, slated for privatization or for incorporation, which should lead to improvements in market conditions and to competitiveness. Incidentally, the program provides for comprehensive support to publishers utilizing non-state forms of property.

Of special significance for national book publishing and the press will be the introduction of a special tax—abolishment of the value-added tax, minimum payment, or even complete exemption from taxes on production income for newspaper and magazine staffs, printing enterprises, and book distributors who publish and distribute literature that includes state interests.

In order to improve the foreign economic operations of our branch, there is a proposal to introduce a series of supplements into the Ukrainian Customs Code concerning the amount of customs collections for written publications.

[Gavrilova] Mikhail Yakovlevich, what are the basic priorities in publishing policy?

[Onufriychuk] I will begin with Minpressinform's intention to develop standard documents regulating the publication and distribution in Ukraine of foreign mass media, in this manner, defending national information space. With the goal of creating favorable conditions for the press' operations, it is proposed to start a continuing study facility for journalists. The State Program for the Development of the Press and Book Publishing provides for measures that would give us the opportunity to eliminate the obvious distortions of the Law on Languages, to increase the relative weight of Ukrainian books. We feel that in the interest of increasing the effectiveness of statements by the national press, there should be a return to the centralized publication of country-wide Ukrainian newspapers in oblast centers, which requires additional financing and material-technical support.

The program also designates other priorities in the publication of literature: publications necessary to society to ensure state needs in the economy, science, culture, and education will be provided based on State Thematic Programs, partially at the expense of budget appropriations.

[Gavrilova] It seems there is no end to the work awaiting Minpressinform and its prospects are far from rosy, but for some reason, we seem to end conversations on an optimistic note. In general, what kind of light do you hope "to see at the end of the tunnel?"

[Onufriychuk] First of all we hope that the crisis situation in this branch diminishes, that conditions stabilize so that the branch can be restored, and that there is an increase in the publication of periodicals and other literature, mainly those that are in the state's interests. One would like to believe that the fundamentals of a domestic industrial base for the production of printing materials being created today will greatly diminish the dependence of the national book publishing industry and the press on other countries. I would like to emphasize that a substantial growth in book production is predicted starting as early as next year: for almost half as much as we had in 1992. Over the next five years, the number of books published per each citizen should reach seven. This, of course, is less than the average European indicator, but at the same time it is much more than we have today. The fact that conditions for providing schools, universities, and technical schools with instructive literature will be created is very important as well. Realization of the State Program for the Development of the Press and Book Publishing for the Period Until the Year 2000 should create the prerequisites for a rebirth in our people's spirituality, education, and culture in the defense of Ukraine's informational space.

Sotsis-Gallup Poll on Attitudes Toward Presidency

954K0589A Kiev DEMOKRATYCHNA UKRAYINA in Ukrainian 13 Apr 95 p 2

[Article by Candidate of Historical Sciences Oleksandr Stehniy, lead academic associate of Sotsis-Gallup, un-

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der the rubric "Sotsis-Gallup —DEMOKRATYCHNA UKRAYINA": "Does Ukraine Need Presidential Power?"]

[FBIS Translated Text] The polling firmly answered this question.

The level of public confidence in the chief of state has been quite stable for the last six months, as testified by the public opinion poll, and surpasses appreciably the same value for the parliament and the government.

The overwhelming majority of the respondents to the poll (68 percent) prefer the American model of presidential power. The President, according to that model, is the head of the government and assumes all responsibility for domestic and foreign policy. Six percent advocated a separation of power between the President and the Prime Minister, as is the case in France. The share of those who see the President as just the "symbol of the nation" without any authority is also insignificant. Only four percent feel that Ukraine does not need the institution of the presidency at all.

The President, in the opinion of 32 percent of those polled, should first implement a policy of social equity and complete equality. One out of four feels that the President should be a consistent democrat and institute market reforms. Fifteen percent indicated the priority of implementing a Presidential policy of full independence for Ukraine. It holds no significance what views he holds, as long as he is a strong individual, for the same number of those polled.

More than a third of the respondents favor granting full power to the President of Ukraine if the parliament proves to be incapable. Twenty-eight percent feel that this needs to be done in any case.

Half of those polled were in fact unable to answer unequivocally where the authority of the President could end. One out of five respondents to the poll did not feel that the concentration of power in the hands of the President would lead to the revival of authoritarianism. But 23 percent, on the contrary, do fear that.

Economic Issues

Budgetary Priorities Criticized

954K0575A Lvov POST-POSTUP in Ukrainian 14-20 Apr 95 No 14, p 4

[Article by Maryana Chorna: "Don't Spit Into the Wind— It'll Turn Into a Budget. The Supreme Soviet Has Approved the Police Empire's Budget"]

[FBIS Translated Text] **In a time of no budget, the state budget which the Supreme Soviet passed on 6 April can be called a budget. Parliament members deserve applause for hacking out the stabilization tax, raising the enterprise profit tax to 40 percent and reviving the value-added tax to 28 percent. But for the rest, it gives you the creeps. In the midst of the severe deficit the real rather than the declared scale of priorities which the Ukrainian state goes by, rose up in all its glory.**

Ranked first among three such priorities is POWER, because only a state with that orientation could decide to spend 98,450,700 million karbovantsy on the militia, state security, customs, and the tax inspectorate. This is 50 percent of the amount planned for social and cultural institutions from nurseries to academies and from village clubs to the National Opera (194,681,283 million karbovantsy) and three times as much as is allocated to fund science in all its forms (33,100,000 million karbovantsy). This budget is that of a state which either intends to fight someone (although military doctrine does not even envision potential enemies) or is undertaking a military putsch. Otherwise it's hard to explain the "Defense Financing" item in the amount of 120,600,000 million karbovantsy, which is 1.8 times greater than all spending on social protection (64,695,543 million karbovantsy). It is a state which views its population only in terms of its usefulness for combat, at least that's the impression you get when you compare these budget figures: funding of housing construction for military servicemen and members of their family—20,000,000 million karbovantsy, versus funding of all other housing and municipal services and highway management—4,436,838 million karbovantsy, or 4.5 times less.

Like any state with that kind of "priority," Ukraine's coercive apparatus is essential, because a situation could arise where citizens began to inquire what sort of gang of lazy bureaucrats they're supporting. Our Ukrainian bureaucrat costs the Ukrainian taxpayer one-fourth of what it costs for all the social protection of all the victims of Chernobyl (83,831,920 million karbovantsy).

By the way, there is one branch of government that does not cost the budget much, namely, the branch that is supposed to protect citizens from oppression and from the government itself—the courts. They only managed to catch 3,500,000 million karbovantsy, and in order to prevent any unforeseen situations, the procuracy organs got the same amount. If any one of us thought that the Ukrainian state is for us ordinary mortals, he was wrong. The state is for the state apparatus and for the POWER which guarantees its ORDER.

Some other priorities of the state budget can be seen in the outlays relating to the "national economy," which was divided in accordance with the "priorities

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of the apparatus." First place went to those which have been and will be "subservient," although it is obvious that the funds invested in them will yield no benefits—namely, kolkhoz-style agriculture, that quiet electoral backwater which will long continue to lead the "Ukrainian government," both the executive and legislative branches, around in the thickets. And for its docility, the countryside gets a lot of the budget pie. Meanwhile, industry, which only rarely dares to ask "What the hell good does the state do me?", has had its funds cut. The National Space Program was cut by four trillion karbovantsy for the same reason, while 5.2 trillion karbovantsy was spent on pedigree livestock; sperm was 1.3 times more important than the stars. Development of the Azov-Black Sea Shelf, on which the future of our energy depends, and indeed our national security itself, was allocated 1.5 trillion karbovantsy. Yet a new round of credits to "procurement and processing organizations to procure agricultural goods on state contract" amounted to 10,000,000 million karbovantsy—6.6 times more.

Industry also has its "whites" and "blacks." The blacks are those that are at least trying to limp out of the crisis, while the "whites" are those whose political support is needed by the present government. That's why they need to get some pie, and they did get some despite the uproar over the severity of the deficit for the national defense. But there's no doubt that plants that used to produce two missiles will now produce one pot worth two missiles. A total of 17,000,000 million karbovantsy went to the coal miners, because without the 15.3 percent of the voters who live in the two oblasts of the Donbass, the government is in trouble.

But there's yet another aspect. Relations between the regions' budget contributions to the Kiev treasury clearly showed the paradoxical fact that Ukraine is itself an empire. Because only in an empire are there colony-regions which make money and regions which get the money earned by others. Article 4 of the Law on the Ukrainian State Budget actually proposed that scheme. Despite equal rates of profit taxes and excise taxes (the smaller portion of revenues), a differentiation of VAT funds which are left to the region was established. And here the picture got very interesting.

But, by tradition, Ukraine's regions are economically divided into three main groups: the industrially developed, principal producers of the gross national product (Donetsk, Lugansk, Zaporozhye, Dnepropetrovsk, Kharkov); the "mediums" (Lvov, Nikolayev, Sumy, Kherson, Odessa, Zhitomir, Ivano-Frankovsk, Transcarpathia, Poltava); and the agrarians (Cherkassy, Chernigov, Volyn, Vinnitsa, Chernovtsy, Khmelnitskiy, Ternopol). In each of these three subgroups there are more vulnerable and less vulnerable ones, for it is obvious that those in which non- able bodied persons number more than 100 have more budget expenses than those in which the number of young, healthy workers predominates. In the first group the weakest oblasts are Kharkov, followed by Donetsk, Lugansk, Dnepropetrovsk, and Zaporozhye. The mediums have oblasts in which the level of social vulnerability is lower than the national average (Transcarpathia, Kherson, Lvov, Nikolayev, Odessa, Ivano- Frankovsk) and in which that figure is higher than the national average. Things are toughest in Sumy, Poltava, and Kirovograd oblasts. There are divergences in the third group, where Rovno and Chernovtsy oblasts have fewer pensioners than the average (19 to 20 percent), while other oblasts have more.

One might have thought that the "budget-maker" would redistribute money from the first group, the richest five, to benefit the third group, the poorest seven, and would take less from those that have more of their own dependents and more from those that are younger and more able-bodied. Fat chance! In the Ukrainian state there are children and there are puppies. Among the industrial "donors" the favorite children are Kharkov and red Lugansk oblasts, which get to keep 78.1 and 7.67 [as printed] percent of the VAT, and Dnepropetrovsk is nearly as well off— 46.4 percent; meanwhile, metal and coal producing Donetsk and Zaporozhye turn out to be "puppies." All they get from their hard-won earnings is 30.7 and 22.9 percent. In the second group the worst off is Poltava. Although it is the most socially vulnerable it only got 24.7 percent of VAT. The Sumy and Odessa people were half-skinned, keeping 53.8 and 56.5 percent, while Lvov got 93.7 percent. On the other hand, their colleagues, who should, by virtue of their level of development, earn no less or have even better potential than Transcarpathia and Kherson, got into the state budget and they are going to get subsidies. Even among the agrarian weaklings, the government contrived to distinguish colonies from the mother country. Agrarian Chernigov and Vinnitsa, with high percentages of pensioners, are going to have to cough up, while the other oblasts will be fattened from the budget.

Contrary to widespread theories, this empire has not been built around certain "national" features such as language or religion, because the "puppies" also turn out to include left-bank oblasts, while the more Ukrainian oblasts on the right bank seem to benefit. But if you look closely, the category of colony includes both highly Banderite Lvov and highly Muscovite Odessa. Even "Westernizing" Transcarpathia is just as much a sponger in the Ukrainian family as is "Easternizing"

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Nikolayev. In the "donors" group, Lugansk is a favorite and Donetsk is a stepchild, Dnepropetrovsk is a pet and Zaporozhye is a bully, yet all are absolutely equal. You don't have to be a political analyst to understand this budget miracle: everything depends on how "somebody" high in power relates to the oblast. How can we place on the same footing the head of state's home turf and some place called Zaporozhye, whose only claim to fame is a few noisy Reform deputies.

How are people in the colonies supposed to feel, working just so they have something for the mother country to take away from them or to fatten one of the branches of government, so that it can gain political influence? Like any other colonials, they want to "separate." What is the feeling of the citizen of a state which sees him only as tax fodder to support the hordes who wear the uniforms and wield the stamps and nightsticks? Like any person who wants to escape from concentration camp. What is the feeling of the entrepreneur, the promising sector or enterprise suffering from insane taxes and terrifically high credit rates for the sake of the "speckled hen" on the kolkhoz? Naturally, they would also rather take their money someplace where they won't be robbed and where they will be thanked for providing work. Leafing through the 1995 budget, of course, one can shrug one's shoulders over all its economic absurdities. But after examining all its articles, it is possible finally to answer the question, What are we building? What we are building is an authoritarian police state with a socialist economy, whose name is the Ukrainian Soviet Independent Empire.

***Final Stage in Privatization Viewed**

954F2184 Kiev KIYEVSKIYE VEDOMOSTI in Russian 20 Apr 95 pp 1,6

[Article by Lyudmila Stukalina: "Highest and Last Stage in Development of Privatization in Ukraine—Nationalization"]

[FBIS Translated Text] It smells of a new scandal, this time a post-privatization one. The list of facilities not subject to privatization that was published recently in the press includes decentralized enterprises as well as leased and joint-stock companies and facilities in the privatization stage. Yevgeniy Filozop, director of the State Property Fund's department of property reform, spoke about this the day before yesterday at a briefing.

This was the essence of the parliamentary edict that recently approved the list and automatically abolished the moratorium on privatization, which had been anticipated for over seven months.

"There are 6,102 facilities on the prohibited list—enterprises belonging to the Ministry of the Machine Industry (military-industrial complex plants), the Ministry of the Coal Industry (mines and their infrastructure), the Ministry of the Agricultural Industry (elevators, grain receiving points), and others that were not subject to decentralization, in accordance with privatization legislation," announced Yevgeniy Filozop.

This circumstance has brought workers in already privatized enterprises that ended up on the enterprise "black" list to a state of utter confusion, specifically the Donetsk Machine-Building Plant joint-stock company known as "Eksperiment." The enterprise was incorporated when about 20 percent of the stock ended up in the hands of the labor collective after a privileged sale of stock. Donetsk residents don't permit thoughts of nationalizing their enterprise, but...

As we know, a few days ago, parliament failed to approve and returned the State Privatization Program for 1995 for further work. Natalya Vitrenko, one of the main economic ideologues of the Socialist Party and a member of the commission on issues of economic policy and the management of the national economy, announced in parliament her alternative privatization program for 1995. This program separates common state property from communal property. The latter, in the opinion of Ms. Vitrenko, should be managed by local soviets. She feels that the people there know better what to do. On the whole, privatization should be conducted in the interests of the broad masses of workers, the "people's advocate" emphasized. "Just because someone wants to end small privatization this year doesn't mean that it will happen that way," Natalya Vitrenko stated firmly.

Most interesting was the fact that the state, according to an idea of the developers of the alternative program, will monitor already privatized enterprises in their fulfillment of business plans, contract conditions of purchase and sale, and bills of lease. Everything, without exception, is subject to verification. "Our commission alone has 500 appeals from enterprises and 300 from citizens on violations made during the course of privatization and after it," Ms. Vitrenko observed. If a new owner violates the law in the course of privatization or does not fulfill the conditions of a purchase-sale contract, he is fined. Ms. Vitrenko, a doctor of economic sciences, considers that the most extreme punishment is nationalization of property, informing us that the mechanism for reprivatization is already being developed.

So collectives, having privatized their enterprises, may wait a little while, optimistically, for capital owners. With the unstable and constantly changing legislative

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base, specialists believe that it is practically impossible to observe all the disjointed and contradictory points of law, decrees, and statutes on privatization, but considering the majority of leftist forces in parliament, it would be easy to conclude that the specter of nationalization is a far from frightening symbol.

True, the State Property Fund is not losing hope. "If there are violations, they must be investigated by the State Property Foundation," Aleksandr Bondar, State Property Fund deputy chairman, commented on my fears. "We do not free ourselves of blame for violations—let the court determine the abuses—but we cannot suspend privatization. It will take devious paths. The size of privatization and the rate at which it proceeds have been determined by presidential decrees, and the Foundation carries out his will," Aleksandr Nikolayevich concluded.

It works out that after the summer (July 1994) moratorium on privatization that lasted over seven months, a new "spring offensive" approaches. If the socialists' initiative finds support in parliament, privatization investigations could become the "winter resistance." The winter palace will not be taken by the new owners—the collectives of privatized enterprises—but it looks as if they won't give up their own property very easily, either. It works out that everything in history repeats itself and that the slogan "All power to the Soviets!" remains relevant, but the question is: Who gets the property?

1994 Privatization Results Summarized

954K0582A Lvov POST-POSTUP in Ukrainian 21-27 Apr 95 No 15, p 4

[Unattributed article: "Privatized Enterprises Operating More Efficiently Than State Enterprises"]

[Text] *The results of an evaluation of 42 privatized and 41 state enterprises in eight oblasts testifies that the activity of the privatized enterprises is more efficient than the activity of the state enterprises, asserts State Property Fund of Ukraine [FDMU] Department of Economic Analysis and Organization of Post-Privatization Support of Enterprises Director Valentina Taraba. The most palpable progress as a result of privatization has been achieved, according to FDMU estimates, at the Kirovohrad Radio Products Plant, the Rivne High-Strength Reinforced-Concrete Products Plant, the Ukrrichflot joint-stock company, the Luhansk Poshuk Experimental-Research Plant, and the Novoukrayinskyy Sugar Refinery.*

The volume of industrial production in Ukraine declined by 30.6 percent in 1994, in the words of Valentina Taraba, but only by 18.4 percent at privatized enterprises. Most of the privatized enterprises were moreover able to conserve jobs, and the Boryslavskyy Porcelain Plant (Lviv Oblast), the Sumy Porcelain Plant, and the Romenskyy Whole Milk Plant (Sumy Oblast) were even able to increase their number of employees, according to the INFOBANK agency.

The planned amounts of privatization in 1994, meanwhile, were only 28.4-percent fulfilled, according to FDMU Chairman Yuriy Yekhanurov. The receipts from privatization total just 4.5 million USD, that is, only 2.3 percent of the hard-currency receipts that were expected to be received from privatization over the last three quarters of the year. The institution of property privatization certificates instead of privatization vouchers this year, and the sale of shares of stock in enterprises for medium- and large-scale privatization through the Certificate Auction Centers network, have not induced the Ukrainian public to take active part in the privatization processes.

Only two of the 56 enterprises offered at the first certificate auction—the Kiev Art Glass Plant and the Ukrelektroaparat Plant——were completely privatized, according to INFOBANK. Some 94.5 percent of the shares offered in the Kharkiv Oil and Gas Institute were sold, along with 97.36 percent in the Kamyanets-Podilsk Electromechanical Plant, 99.81 percent in the Korovynetskyy Sugar Refinery, 99.98 percent in the Berdyansk Fish Canning Plant, 97.42 percent in AT ADVIS, 99.94 percent in the Theatralnyy Hotel, 99.87 in the Yantsevskiy Granite Quarry open-type joint-stock company, 99.73 percent in the Promvyazok open-type joint-stock company, and 98.36 percent in the Slavutsk-Polyanskyy Paper Mill. The shares of other Ukrainian enterprises were sold with less success. Seven enterprises were not able to sell a single share. The results of the second certificate auction, at which the shares of 203 enterprises were offered, will soon be known. There is no reason to expect that it went any better than the prior one. The same fate waits the next auctions as well—until popular rumor spreads the news of the first dividends paid to the privatization accounts of the citizens.

The shares of 94 open joint-stock companies will be offered at the third certificate auction. The Ternopil area is offering the largest number of enterprises (13), followed by Volyn and Dnipropetrovsk oblasts with nine each. The least have only one, from Kiev, Rivne, Kherson and Khmelnitsky oblasts. Vinnytsya, Zaporizhzhya, Sumy, Kharkiv and Chernihiv oblasts, as well as the Republic of Crimea, have "ignored" the system of certificate auctions entirely at this stage. The Lviv area is represented by four enterprises.

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A quantitative analysis of the enterprises themselves that was performed by the Post-INFORM agency testifies that precursors of stability have begun to appear in the great Ukrainian privatization. All three auctions, for example, have had one general feature—the more attractive the company, the smaller the percentage of shares it offers for sale. The gigantic STYROL concern in the chemical industry (Donetsk Oblast), for example, whose authorized capital is valued at more than 482 billion karbovantsi, is offering just 3.6 percent of its share "on the side," while Dnipropolimermash (with capital of 117 billion karbovantsi) is offering just 8.03 percent. There are exceptions, of course, but they confirm the rule against the background of the overall trend.

The qualitative indicators of the 94 enterprises in the third auction were not all that bad. The authorized capital of 25 of them exceed 10 billion karbovantsi, while three of the companies have capital over 100 billion karbovantsi. A significant portion of the enterprises offered almost controlling blocks of stock in the sale. One may single out from this group 24 companies that are selling 50 percent of their shares. The Cherkasy Ritm enterprise, selling everything down to the last light bulb, merits particular attention—all 100 percent of its shares of stock, including its unprofitability. The 94 enterprises as a whole are offering shares of stock totaling almost 500 billion karbovantsi. The Donetsk region is the leader among the oblasts (six enterprises offering shares of stock worth more than 101 billion karbovantsi for sale), as well as the Kirovohrad area (two enterprises for 65 billion karbovantsi).

***Commercial Bank Crisis Described**

954K0583A Kiev MOLOD UKRAYINY in Ukrainian 27 Apr 95 p 2

[Article by Olena Hubina under the rubric "In the Swirl of the Banking Crisis": "The 'INKO' Civilization Does Not Intend To Disappear"]

[Text] Is it true that the INKO Bank has gone bankrupt? Such a question from journalists would perhaps have seemed impertinent just a year ago. But in today's times of constant crisis and disappointments, the most unexpected rumors and suppositions so often come close to the truth that there is no time to be surprised. Information is circulating today that the National Bank of Ukraine refused to grant credit to seven commercial banks that are failing. And some are saying that INKO is among those banks.

The chairman of the board of the INKO joint-stock bank, Petro Miroshnykov, rejects such rumors. "Our bank is not bankrupt," he informed us. That is even though it can be seen, of course, that these are not the best of times for the bank. But really for it alone?

The current banking crisis developed in our country, as they say, in systematic fashion. The National Bank of Ukraine took a series of strict measures at the end of 1993 and beginning of 1994 that affected the commercial banks. One could single out among them the rapid decrease in the rate of refinancing, restraint of the rise in the exchange rate of the dollar, and the restriction of credit rates from 400 percent to 250. The rate for obligations, at the same time, remains close to 300 percent.

The shortage of working capital, which up until that time had been conditioned by the low monetary emissions, became palpable at enterprises as early as the second quarter. The next link in this chain was the crisis of sales, and finally the payments crisis. The money shortage in the national economy is 60 percent, according to information from the same INKO Bank. Enterprises have stopped paying back bank credit. Petro Miroshnykov feels that those who began to curtail their work came out ahead at that time.

Only six commercial banks were unable to withstand the upheaval at the end of 1993 and beginning of 1994, according to information from National Bank of Ukraine Board Chairman Viktor Yushchenko. Miroshnykov says that the spirits of most of the commercial banks were lifted only at the end of 1994 thanks to the liberalization of currency legislation. They then simply switched over from the credit market to the market for currency operations.

Another upheaval in the banking and financial system occurred in November 1994, however. There was a surge in hyperinflation in that month that reached 71 percent. The price for money doubled over six weeks. The commercial banks began to experience a gap between income and critical liquidity.

The hyperinflation, in the words of Yushchenko, lasted only for a month. But 33 commercial banks ended up in a problematical situation, with 17 of them in very acute shape. There are a total of 218 commercial banks operating in Ukraine today.

There has been information in the press in recent weeks regarding the fact that the National Bank responded to the requests of ten commercial banks to grant them credit, and finally refused seven of them. Petro Miroshnykov relates that the INKO Bank had sent a letter to the National Bank as early as last year. It set forth their view of the problems in the banking sphere, and a series of proposals. INKO was refused credit at the end of February. Miroshnykov says that possibly the

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request was premature, and the decision of the National Bank would perhaps be a different one today. But now INKO has decided to turn to its internal reserves.

All of these recounted elements of last year's crisis the bankers call the "external environment." Miroshnykov himself acknowledges that the INKO situation took shape owing to a number of causes of an internal nature. He feels, first of all, that we have omitted a series of aspects connected with the system of management itself. The operation of several branches of the bank was also not efficient enough. Eight branch managers were indeed dismissed for that reason last year, and the debts of the branches were transferred to Kiev for servicing.

Miroshnykov does not dispute some other elements that could have fostered the problems at INKO. He refers to a certain prejudiced attitude toward the bank, particularly because it is the largest commercial bank in Ukraine. Also because of the fact that he, Petro Miroshnykov, stated whose side he was on, and that made the opponents from the "other side" more vigorous. Miroshnykov reminds us in this regard that we should remember that he is today a special advisor to President Leonid Kuchma.

A general meeting of the shareholders of the INKO Bank was held in Kherson at the beginning of April. They considered the operation of the bank in 1994 to be satisfactory. The dividend on the shares of stock was set at 300 percent and was, according to Miroshnykov, one of the best.

The bank's assets as of 1 January 1995 were 22 trillion karbovantsi, and 38 trillion taking into account the results of the first quarter.

One could become optimistic at the level of such figures, of course. But they can only partly reflect just the moment, and the prospects remain unclear. It is known today that Ukrainian banks are only two of the 100 largest banks in the CIS countries. The amount of capital in Ukrainian banks is insufficient for the normal servicing of the interests of Ukrainian industrial capital. Ukrainian enterprises are seeking bank capital outside the country even today.

Enterprises in Ukraine, in the opinion of Petro Miroshnykov, are quite simply unable to engage in their own financing. And they are focused only on the output of product. The INKO Bank, proceeding from that very situation, was among the initiators last year in the creation of financial-industrial groups. The idea was based on having banks in particular take on work with industrial capital.

The financial-industrial groups, however, have begun to be created under conditions of contradictory positions. Bank capital in Ukraine, after all, is private today, while industrial capital is state capital. It would be easier for the banks to find common ground with them if large private industrial associations existed in Ukraine, in Miroshnykov's opinion. Both sides still look at the rules of the game differently.

The situation will remain absurd until they are reduced to a common denominator. Despite all the measures to liberalize foreign trade, enterprises still rely for the most part on barter operations. And that means that large amounts of resources in fact remain in circulation outside the banking sphere.

The defective system of taxation and wages that is operating in Ukraine, and which is slowing the development both of the economy as a whole and of bank capital, could also be mentioned here. Since the banking system is most efficient in following market transformations, a crisis in it slows down the whole economy.

The commercial banks that have experienced the crisis, in the words of Petro Miroshnykov, are today reminiscent of injured people that must be handled with great care. The great hope is for a dialogue with the National Bank, which has been hinted at of late, and that it does not take advantage of their problems to force incorrect decisions that will be harmful in the future.

The INKO Bank is not bankrupt, but problems remain. And into what corner will they drive the rest of the 200-plus commercial banks, none of which is ensured against difficulties?

*Ukrainians Granted Timber Rights in Irkutsk

954F2240B Moscow ROSSIYSKAYA GAZETA in Russian 5 May 95 p 1

[Article by O. Vatalina: "Irkutsk-Kiev. Direct Route"]

[FBIS Translated Text] Why isn't it necessary to close "foreign" timber industry enterprises? Irkutsk Oblast and Ukraine signed an agreement stating that this year Ukraine will be allotted a lumber felling area for the extraction of 400,000 cubic meters of timber. In exchange, Siberia will receive equipment, machinery, and food: 8,000 tonnes of meat, 25,000 tonnes of sugar, wheat, vegetable oil, and corn and sunflower seed. In the long term Irkutsk workers are prepared to lease 500,000 hectares of the taiga to the Ukrainians for 50 years. For that purpose it is necessary to bring the rights of Ukraine to the former, still socialist property that remains in Siberia into accord with the new Russian legislation.

"If Russia is leasing Baykonur from Kazakhstan, then why do Kazakh, Tajik, and Ukrainian enterprises remain on our Irkutsk land?"

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After returning from a session of the Federation Council which examined rights to the former All-Union Cosmodrome, Irkutsk Governor Yuriy Nozhikov raised that question before the administrative council and then answered it himself:

"We must likewise pose the question concerning leasing our forests and creating joint ventures with CIS countries."

Since time immemorial Irkutsk Oblast has allowed villages here. Republics created their own lumber industry enterprises here, and even associations like Uzbekles, Tajikles, and the Crimean Lumber Industry Enterprise exist here. Strange as it may seem, all these have an Irkutsk address.

Times have changed, however. Today no one will permit a neighboring state to operate on his territory just in the name of friendship. Everything is determined by economic interest. That is exactly the way the Ukrainian delegation, which visited Irkutsk at the end of last year, conducted its deliberations: delivery of goods, mainly foodstuffs, which the Siberians have to obtain on the side anyway, in exchange for the use of lumber-felling areas.

Of course it would be possible to introduce strictly monetary forms of compensation, but that is the sense of direct economic ties in that they help both sides to simultaneously resolve a whole array of problems. It provides for the acquisition of necessary products with long-term guarantees and in large lots together with the predictable preservation of markets; that is of production itself coupled with a reduction of unemployment as well as an influx of revenues into the budget. It is also easier for ministers and governors to resolve customs and transportation problems jointly.

In general the Ukrainians and the Siberians reached an agreement and the Irkutsk delegation recently visited Kiev. Selection of specific suppliers, quality, quantity, prices—a working process took place and details of the agreement were worked out. What is most important, however, is that it was possible to work out an optimal scheme for mutual settlement of accounts. By a decree of the Ukraine Government, in the first six months the Ministry of Finance will allocate 1.3 trillion karbovantsy to pay for food being delivered to Irkutsk Oblast. At the same time loans will be credited to the Ukragropromstroy corporation which is interested in obtaining Siberian timber. That corporation will be paying for the products being sent to Siberia. The Irkutsk firms, in turn, which sell the food being received, will pay for the timber being supplied to Ukraine. In that manner mutual payments will be made at the local level without the complex and prolonged process of conversion and transfer of money there and back. All that remains is joint tallying and adjustment of such financial operations.

***Stricter Controls Over Natural Gas Payments, Use**

954F2240A Moscow KRYMSKAYA GAZETA in Russian 5 May 95 p 1

["Government Telegram" from Simferopol "to the Government of Crimea"]

[FBIS Translated Text] As a result of an irresponsible attitude toward government decisions concerning timely settlement of accounts for natural gas and limitation of its consumption, the indebtedness to enterprises in Russia is rising steadily and has grown to more than $500 million in the current year. Before the end of summer with such a state of affairs it will exceed $1 billion. Nonfulfillment of obligations to the Gazprom Joint-Stock Company with regard to payments presented the government with the possibility of a complete stoppage of gas deliveries to Ukraine. This in turn entails the stoppage of main segments of production and power plants and subsequent economic paralysis. The indebtedness of enterprises of the Ministry of Industry (Holubchenko), Ministry of Agriculture (Karasyk), Ministry of Machine Building Industry (Petrov), Ministry of Transport (Artemenko), Ukrstroymaterialy (Zolotarev), Ukrtsement (Havryushko), and of the housing and communal services industry has not decreased. Indebtedness for gas showed a significant rise in Donetsk Oblast (Shcherban), Dnepropetrovsk Oblast (Lazarenko), Lugansk Oblast (Kupyn), as well as in other oblasts. The program of economic reorganization is being threatened because of the gas payments crisis. With such an irresponsible attitude of executives at all levels of management as well as directors of enterprises, enterprises will not be able to prepare the national economy and the population for winter. Under such conditions the government is compelled to undertake some rigid measures:

1. As of 20 April of this year, all debtors are to limit consumption or be disconnected.

2. Supply of gas to the population is to be discontinued as of 10 May of this year for the entire summer, which will primarily affect consumers in the rural area.

3. An appeal is to be made to the Supreme Council of Ukraine concerning early cancellation of the authority of those chairmen of councils of people's deputies who are still not only not controlling payment delinquencies for natural gas that has been consumed, but are blocking the actions of gas extracting and transporting enterprises of Gosneftegasprom aimed at restricting and discontinuing gas supply to debtor enterprises. I demand that all possible additional sources of financing be employed in order

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to ensure current payments for gas while discontinuing service to all enterprises which are incapable of paying for it and dissolving all contracts with heads of enterprises who are sabotaging the settlement of accounts for natural gas. Lists of enterprises with sufficiently complex production are to be telegraphed to Mityukov in Dyuba's Cabinet of Ministers. The strictest control is to be established over consumption of gas and other energy sources. Ukrgazprom and Ukrgaz are to undertake necessary measures in order to declare chronic debtors as being bankrupt with the imposition of appropriate sanctions against heads of enterprises, including limitation and controllability of their rights in conducting independent financial and economic activity. The telegram is to be relayed to all heads of city district executive committees and directors of enterprises and organizations

[Signed] Ye. Marchuk, acting prime minister of Ukraine

Note: The telegram was translated from the Ukrainian at the editorial office.

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Belarus

Residents Polled on Political Situation

954K0577A Minsk ZVYAZDA in Belarusian 31 Mar 95 p 2

[Article by Ihar Sinyakevich: "Experts and Population Assess Political Situation Differently"]

[FBIS Translated Text] **In late February and early March, the Independent Institute of Socioeconomic and Political Research [NISEPD] (Manayew, director) conducted a survey of the elite of Belarusian society. It was participated in by 100 persons who influence decision-making in our country, leaders and arbiters of ideas. The 100 subjects consisted of four equal groups, by spheres of activity: politics, business, media, and culture. The Business group included not only entrepreneurs but also state enterprise executives. In selecting the experts to take part, the primary focus was on their level of influence. The respondents included representatives of a variety of political views. NISEPD's survey was answered by an executive in the President's Administration, an assistant for special assignments, four ministers, three heads of parliamentary commissions, well known businessmen and "captains of industry," editors of central periodicals and television, figures in science, culture, and the arts, and many other well known people.**

It is to be emphasized that this survey does not reflect the opinions of all of society; it is not representative. Its value lies in the competence of the respondents.

The experts were asked a question relating to a possible conflict between the executive and legislative branches. Twenty-one percent of the experts think it is very possible that the President will be ousted from the government in 1995; 63 percent think it is unlikely, and 12 percent think it is impossible. Thirty percent of the experts thought it entirely possible that Parliament will be dissolved this year, while 58 percent thought such a turn of events is unlikely. Only 7 percent of the experts consider the dissolution of Parliament to be impossible. Hence, a very small percentage of Belarus's elite is certain that political cataclysms are impossible this year. A substantial percentage think that either the President or the Parliament will lose power, but the President's position is firmer.

The experts' opinions quite frequently do not coincide with the people's opinion, which has been determined by representative surveys. For example, only 6 percent of the experts think it possible that the USSR will be revived in the near future, while 85 percent hold the opposite view. Meanwhile, the public gives more optimistic answers: 39 percent think it is possible the USSR will be revived, while 60 percent think it is impossible. Clearly this is a case where we can say that a pessimist is just a well-informed optimist.

The experts and the public differ somewhat in their assessment of the activity of the basic institutions of authority. On a five-point system, the President gets the highest average score among the population—2.64—and the lowest score among the experts, 2.12. The Supreme Soviet got an average score of 2.03 among the population and 2.24 among the experts. The Cabinet of Ministers got 2.08 and 2.41, respectively. On the other hand, the experts aren't immune to subjectivity either. Let's compare the responses of the experts and the public to the question, "To whom do you link your hopes for a solution to the economic crisis?"

	Experts	Population
The President	21	48.7
The government	23	17.4
The Supreme Soviet	28	8.8
Belarusian entrepreneurs	53	23.3
Foreign capital	40	26.6
Political parties	25	8.0
Executives of state enterprises	10	20.5
The army and state security	6	8.0
The mass media	27	5.6
The judicial system	11	6.6

(Several answers were possible for each question, so the total percentage exceeds 100.)

You can see that the population places its trust in "Daddy," while the experts, for their part, place their trust in all the state institutions equally except the judicial system. But experts mostly place their trust in national and foreign capitalists. The experts' high assessment of the role of the media may be due to the fact that the experts who were surveyed included many journalists. Yet the experts were less inclined than the population to place their trust in state enterprise executives even though that group included many such executives.

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In the course of the survey, Belarus's elite were asked: "What role might Western aid play in Belarusian reforms?" "Decisive," answered 11 percent; "substantial" answered 51 percent; and "very little" answered 27 percent. Six percent think that Western aid can't play any role, and 5 percent gave no answer.

Well, how do the elite assess Belarus's economic situation compared with its neighbors?

Economic Situation of Belarus Compared to

	No answer	Better	The same	Worse
Russia	5	6	17	72
Ukraine	6	23	52	19
Poland	7	5	2	86
Lithuania	9	5	13	73
Latvia	9	5	12	74

The assessments, as we see, are not encouraging. The experts think that in the quest for a third way to a bright future only the Ukraine has overtaken us, and not by much.

Is there a political "magic wand" to show the way out of the crisis? It's a hard question. Still, what changes in the extent of powers of the institutions of authority might foster this?

Do you think the powers	No answer	Need to be enlarged	Need to be kept in the same amount	Need to be limited
Of the President	10	12	55	23
Of the Cabinet of Ministers	13	43	10	34
Of the Supreme Soviet	9	5	10	56
Of the ministries and departments	17	19	39	25
Of the local soviets	10	63	12	15

Curiously, the lack of an answer may be more meaningful than an answer. Yury Drakakhrust, the author of the project, reports that the questionnaire included this question: "Name three persons who have had the best influence on Belarus's situation and three who have had the worst influence." Most of the experts refrained from answering this question, but a few said: "We can say the surnames, but you will have to write them in on the questionnaire in your own hand." This is a good illustration of how free Belarus's elite feels itself to be.

*Financial Problems of Energy System Viewed

954E0924A Moscow KOMMERSANT-DAILY in Russian 29 Apr 95 p 4

[Article by Anna Baneva under the rubric "CIS Energy Problems": "Belarusian Energy Reoriented to Gas"]

[FBIS Translated Text] The cost of the energy resources needed this year for Belarusian enterprises is approaching the amount of the republic budget. The overall sum of indebtedness on energy resources is shifting to Belarus' foreign debt and as of today it amounts to more than 3.5 trillion Belarusian rubles. And 60 percent of this is indebtedness for 1994, 40 percent—for 1995. In spite of the measures envisioned by the president's edicts and the directive documents of the government, nonpayments have been and remain the most critical problem of the national economy. In particular, Belarus has paid the Russian Gazprom for only 55 percent of the gas that has been delivered. This figure came up at a news conference given by the minister of energy of Belarus, Valentin Gerasimov, at which he announced that now the Belarusian energy system is being reoriented from oil to gas.

In Gerasimov's opinion the reorientation is necessary since gas is distinguished by its high energy-intensiveness, is ecologically safer, and is more economically advantageous. But it must be recognized that the reorientation also has a political underpinning which is being felt very keenly by the local political forces. Belarus' orientation toward the West dictates reliance

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on diversification of sources of energy resources, which means the primacy of oil on the energy balance sheet. Preserving the pro-Russian orientation is a condition for introducing gas into the republic's energy system.

It is still too early to speak about the political debates associated with the plans announced by the country's leadership, therefore let us illustrate them with a general macroeconomic background. On the whole reliance on gas is nothing new from an economic standpoint. In recent years the consumption of petroleum products in Belarus has begun to show a steady tendency toward decline: While in 1990 petroleum products made up 54 percent of all the energy sources delivered to the country, in 1994 the proportion dropped to 40.1 percent (10 million tonnes). Conversely, the utilization of natural gas increased on the energy balance sheet during this same period from 33.7 percent to 51.6 percent.

The political move with which the Belarusian leaders accompanied the announcement of their energy strategy was curious. In the language of propaganda this was usually called "assume the image of the victim." In Valentin Gerasimov's words, the republic has been placed in a very tight box in the area of acquisition of energy resources. A message received not so long ago from Viktor Chernomyrdin gave as a condition for the fulfillment of Belarusian-Russian agreements the functioning of 100 Russian customs officials on the Belarusian-Ukrainian border. The dramatic note of Gerasimov's announcement, however, was not evaluated since the creation of joint customs posts was envisioned by the agreements on the customs union and joint protection of the border.

The letter from the Russian prime minister was also referred to this week by the general director of the Belarusian state enterprise for transportation and delivery of gas, Nikolay Machurnyuk. He stated that the letter contains a requirement to pay on the debts for gas for 1994. Belarus' debt to Gazprom for this period was $409 million and is continuing to grow. It is anticipated that during the first quarter of this year the republic's debt to the concern will be about $100 million. A special Belarusian-Russian commission has been created with the participation of representatives of Gazprom, and it is developing versions of payment of the debt. One of them is to pay with shares in Belarusian enterprises. This, incidentally, was used previously in an agreement between Russia and Ukraine. They are also working out the possibility of paying with raw material, particularly potassium salts, since the capacities for producing these in the republic are chronically underloaded.

Of course, each side is sticking to its own tactics. Belarus is interested in extending the payment of the debt. And Russia is insisting that gas delivered to the republic be paid for immediately after delivery. Moscow does not conceal the fact that it is prepared to apply sanctions in the form of reducing the delivery of gas to the republic (they were already applied last year) unless the commission finds and acceptable solution and Belarus pays its debts.

In the situation that has been created, great hopes are being placed in the construction of the Yamal-West Europe gas pipeline (an overall distance of more than 4,000 kilometers, and 600 kilometers on the territory of Belarus). By the year 2010, after the startup of the gas pipeline, Belarus will be able to consume more gas than it does now, that is, up to 30 billion cubic meters of gas a year. With the construction of the gas pipeline, transit through the republic will increase threefold, and the delivery of gas—only twofold. Belarus intends to charge a special tax for transit, payment for utilization of the land, etc. But, taking into account Belarusian-Russian agreements on the customs union, it cannot be ruled out that Belarus might receive only payment for the use of the minerals, as a result of which it would have to make changes in its tax legislation. Nonetheless, the government is hoping that increasing deliveries of gas to the republic will advance the energy-intensive branches of the economy. Valentin Gerasimov thinks that Belarusians "must be patriots for this construction, these transcontinental mainlines, because this is our future."

Gazprom has notified Belarus that it intends to begin construction of the gas pipeline this year and continue working until the end of the year on the 209-kilometer section from the city of Nesvizh to the Polish border. On the Belarusian side the project of the Yamal-West Europe gas pipeline is being financed by the Beltransgaz concern. Here most of the financing of the construction on the territory of the republic is being handled by the Russian Gazprom. This, in Nikolay Machurnyuk's words, is disadvantageous to Belarus, and therefore it cannot be ruled out that the government will be forced to search for loans. At the same time it became known that the German company Ruhrgas intends to participate in the financing of the Belarusian part of the project and will possibly grant loans to the republic. Ruhrgas is interested in preventing or at least restricting Gazprom's access to the Belarusian part of the project. But the German company still prefers not to speak about a specific sum of credit.

In spite of the plans that have been announced for the use of gas in the national economy, the idea of the Baltic-Black Sea petroleum collector (see the article on

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page 4) has certainly not faded into the background. Commenting on the possibility of Belarus' participation in the construction of the oil terminal in the Lithuanian Buting (the American Eximbank expressed readiness to give guarantees on credit for half of the sum of $220 million required for the construction of the terminal) and the president of the concern Belnefteprodukt, Anton Loyko, stated that Belarus is interested in constructing the terminal in Buting only if there is a section that goes to the Novopolotsk oil refinery. And its construction, according to preliminary calculations, would cost the republic approximately $100 million. Additionally, it is necessary to have investments in the construction of the terminal itself. In Loyko's words, as of today the republic does not have this money. The search for investments from the Lithuanian side, as Loyko stated, is proceeding slowly and with difficulty. At the same time the Lithuanians do not want to allow the Russian LUKoil, which has expressed a readiness to finance the Belarusian part of the project, to participate in the construction.

According to preliminary calculations, a tonne of oil which will be delivered to Belarus through the Baltic-Black Sea collector will be $10-15 more expensive than Russian. But it cannot be ruled out that in the future, with an increase in prices in Russia, oil from Buting will be more advantageous. Anton Loyko stated also that the technical and economic justification for the Baltic-Black Sea collector has not yet been developed, and only after it is received will it be possible to speak of the expediency of Belarus' participation in the project. According to preliminary estimates, the cost of the collector will be approximately $3 billion. In Loyko's words, most likely this will be disadvantageous for the republic. One can assume that this statement has a political nuance as well. After all, Belnefteprodukt is a state enterprise.

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Estonia

*Finance Minister Reviews Economic Progress

954K0572D Tallinn PÄEVALEHT (Business Section) in Estonian 15 Mar 95 p 3

[Article by Tiiu Allikmäe: "Estonia's Economy Is in Good Condition"]

[FBIS Translated Text] ***Thanks to the media, the public already has a picture of the general condition of Estonia's economy. Finance Minister Andres Lipstok remarked, however, that those aspects deemed to be most important from the government's point of view merit a closer look.***

Summarizing last year, Lipstok pointed out the up and the down side of the economy.

There Was More on the Plus Side

Andres Lipstok said that obviously on the plus side of Estonia's economy for 1994 was, above all, the more vigorous influx of foreign capital. "In 1993, 2.2 billion kroons of foreign capital were invested in Estonia's economy, but in 1994, that figure was up to 3.2 billion kroons," he explained. Another positive phenomenon and indicator of an improving economy mentioned by Lipstok was the dropping of interest rates on both short- and long-term loans. An increase has also been noted in the relative portion of long-term loans. "This shows that banking has moved from simply financing the cash flow to more serious projects," Lipstok asserted.

Official unemployment went down last year. The increase in the real income of workers was also considered significant by the finance minister. In 1994, the consumer price index went up 47.7 percent compared to 1993, while average wages increased 63 percent during the same period. "From this one can conclude that the purchasing power of the average wage went up by more than 10 percent," Andres Lipstok cited as an example. "Of course, one can argue about whose average salary we are talking and how much that will influence the purchasing power of an average person, but that is a matter of statistics," he added.

Unfortunately, we cannot talk about the growth of industrial production quite yet. The reason is simple: the statistical data we have today does not enable us to compare 1994 to 1993 yet because the government only has the monthly growth summaries at its disposal. The annual summaries are much more comprehensive. Lipstok expressed hope that the necessary information will be assembled during the first quarter. The Ministry of Economics estimated the increase in the industrial production to be at least 3 percent. "I have no reason to think that this is not so," the finance minister said.

He said there was one sector of the industry—namely the food items sector—that slowed down this rate of growth. "The relative portion of the food items sector is 35.7 percent of the total industrial volume, and naturally a deficit in this area will have a negative effect on the whole industry," Lipstok said.

There Was Also the Minus Side

The most conspicuous on the minus side is the foreign trade deficit. The finance minister said that this has not affected any ongoing process because the overall trade balance is positive. Unfortunately, however, the deficit started growing from the first quarter of 1993 and reached 4.588 million kroons by the end of 1994.

Another source of concern to the finance minister was that agriculture has not been able to pull out of its depression. "The depression is getting worse instead," Lipstok admitted.

Another negative factor pointed out by Lipstok was the existence of a shadow economy. "Of course we have had a shadow economy before, but now we have a better idea of its volume," Lipstok commented.

Budget Balanced, As Before

The year 1994 ended well for the state of Estonia. Proceeds amounted to a little over 7 billion kroons, exceeding expenses by 170 million kroons. "We can say that a balanced budget, which we have always set up as an example, has been confirmed as a reality," the finance minister rejoiced. The 170 million kroons represent additional resources for 1995.

Analyzing the proceeds by different income sectors, it becomes evident that projections for one of the sectors went way off the mark. That was land tax that was not collected because of the snagged land reform. The finance minister expressed hope that next year the proceeds from land tax can be measured in much more accurate numbers. Those suffering most from non-collection of land taxes are local governments.

It is customary, in a respectable economic analysis, to mention the national debt. According to the finance minister, the state of Estonia currently has 13 foreign loans totaling $259.4 million. The actual total paid out, however, is $123.8 million.

*Reform Minister Views Privatization Progress

954K0574A Tallinn PÄEVALEHT (Business Section) in Estonian 29 Mar 95 p 1

[Article by Urve Repp: "Strong Grip on Privatization"]

[FBIS Translated Text] ***Last year was a crucial year for privatization, according to Reform Minister Liia***

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Hänni, assessing the performance of the Privatization Agency for 1994. Two international and two domestic privatization competitions were declared besides the continued sale of smaller objects by competitive bidding. The public sale of corporate shares was also started during this year.

Privatization Results

Last year, 339 sales agreements were entered for privatization—that is one agreement a day, on the average—which was the fastest possible rate toward privatization.

The privatization transactions should bring Estonia 1.4 billion kroons from the different allocations. Since many of the sales agreements were based on installment payments, the actual cash proceeds from privatization transactions were 431 million kroons, Hänni explained. Of these proceeds, at least half was reinvested into the Estonian economy through the Restitution Fund, into which 50 percent of the privatization proceeds are channeled.

Speed and Quality Essential

Hänni said that speed and quality are essential in privatization. Speed is very important because the condition of enterprises in state ownership is not improving but deteriorating. The quality of privatization is determined by the ability of the new owner to make a go of the business. By keeping privatization as open and competitive as possible, an effort is made to guarantee the quality of privatization, the reform minister said. This is why offers for most of the enterprises to be privatized are made through international competitions.

Another objective has been to bring new capital into the Estonian economy. Restructuring enterprises after privatization is backed by calculations for the business plan and guarantees for investments and employment.

Privatization Priorities

In accordance with the government's privatization program, priority was given to privatizing the industry processing agricultural products and companies in the forestry and lumber business. Most of the businesses in these sectors have been privatized, indeed, Hänni said. Those businesses in this sector that have not been privatized yet are now in the process of being privatized.

Since companies cannot always be sold at first try, close to one-fourth of them have to be declared residual and may have to be offered up for privatization several times.

New Directions in Privatization

The reform minister said that from the second half of last year, privatization securities were used for privatization. At the buyer's discretion, up to 50 percent of the purchase price can be paid with privatization securities, and many of the buyers did just that.

Last year, preparations were started for the public sale of corporate shares, which called for the passing of several legal measures and setting up a depository for securities. That made it possible to start the public sale of shares for the Tallinn Department Store.

The most complicated task was reserving the shares, which required drafting up separate sales agreements. Currently, shares of 18 companies are reserved in state ownership so that they can later be privatized to small investors through the public sale of shares.

Foreign investors deem the existing state enterprises to be quite risky and prefer to start new ones.

The government's privatization program for 1995 includes preparations for privatizing enterprises with complex infrastructures such as Eesti Energia [Estonian Energy], Eesti Merelaevandus [Estonian Marine Shipping], Eesti Raudtee [Estonian Railroad], Estonian Air, and Eesti Põlevkivi [Estonian Oil Shale].

The privatization program did not accomplish the privatization of enterprises together with the land, and this is why it is very important that the land issue be made part of the privatization in the future and that it be resolved, Liia Hänni emphasized.

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